

2010 ~  
2011

# SIYATHEMBA MUNICIPALITY ANNUAL REPORT



## Contents

Mayor's Foreword .....	3
Statement of the Municipal Manager for the 2010-11 financial year .....	4
Overview of the Municipality.....	5
Background of Municipal Area.....	9
Vision .....	11
Mission .....	11
Financial Viability Report.....	12
Internal Audit Committee Report.....	19
Infrastructure and Housing Services .....	21
Municipal Transformation & Organisational Development.....	26
Audited Annual Financial Statements .....	29
Report of the Auditor – General .....	88

## Mayor's Foreword

**Siyathemba Local Municipality** has the ability to overcome its internal challenges and address the national matters like poverty and unemployment, HIV/AIDS, crime, teenage pregnancies and education.

The above challenges require commitment and discipline of all and an integrated government approach.

On an operational level service delivery will be advanced by filling of critical vacancies and improvement and/or the implementation of systems and procedures.

As far as service delivery targets are concerned we made yearly great strides to improve in taking services to our customers and to date we are challenged to address the housing backlog and eradicate the bucket system completely in our municipal area (we are challenged in Marydale).

Predictions are that in years to come we might have water problems in Niekerkshoop (15 to 18 years) and Marydale (approximately 30 years), currently supply from bore holes.

We are well covered by a hospital in Prieska, clinics in Niekerkshoop and Marydale and at present we face challenges in the areas of ambulances, and medical practitioner's shortages. Medicine shortages are in the process to be address.

***However, the condition of the access roads to Niekerkshoop (about 30 km gravel road) makes service delivery and access very difficult and we request the road to be tarred.***

Our financial position is influenced by debt collection rate and grant dependency form provincial and National government.

At our strategic planning session we adopt the approach to turn our audit outcome (disclaimer) for the past years into an opportunity and is in process to be address by capacity building in the form of staff appointments and training, implementation of SCM unit, budget control measures, and creditors ordering system and timely payment of creditors and improved debt collection.

Our cash flow situation is addressed by means of improved debt collection (at council meets the people forums the necessity to pay for services rendered is stressed) and ways to increase our income streams.

Local government elections have taken place peacefully and again the people of Siyathemba demonstrate that the African National Congress is best positioned to make their aspirations and hopes a reality.

The newly elected Council has no illusions about the challenges ahead and is prepared to work tirelessly and as declared that with the help of God Almighty we know that we will come a long way in meeting the high expectations of our people.



.....  
**P. PAPIER**  
**MAYOR**

### Statement of the Municipal Manager

Siyathemba municipality consists of three towns, namely Niekerkshoop, Marydale and Prieska.

Prieska, being the head sitting. We are having a population of plus minus 20 000 of which 5100 are accountholders of the municipality. 45% are indigent and unemployed, most are grant dependants. Reality to this puts us in a position of being a disadvantaged municipality, seeing that the municipality also relies on grants.

Above all these challenges, we are managing to deliver the necessary basic services like clean water, refuse removal, electricity and sanitation, keeping in mind these are daily services. With all the financial constraints, we have had minimum failure to deliver these services even during the strike period.

The municipality's IDP has been compiled with a strong focus on service delivery, infrastructure developments, and job creation projects. Our area is blessed with minerals and other natural resources. These minerals and resources can be developed to make lives better in our area. We need departmental assistance to unblock these resources- mining, solar, agriculture, social and labor plans. These are the necessities that need to be implemented in our area to bring a better life to our people.

Financially, we are under a lot of pressure to secure payment from our debtors and to our creditors. Our collection rate / payment culture with subsidy 70% and without subsidy 59 %. With the minimum resources available to us, we strive to do our outmost best to meet the needs, improve on what we have achieved and strive to better the lives of our communities.



.....  
**G.J. BESSIES**  
**MUNICIPAL MANAGER**

## Overview of the Municipality

### INTRODUCTION

In this chapter we briefly introduce the Siyathemba Municipality and the entire Municipal area. The Siyathemba Municipality is located within the Pixley Ka Seme District area (DC 9). Siyathemba is made up of three entities, namely, Prieska, Marydale and Niekerkshoop.

#### a. Prieska

Known to the locals as “the gem of the Northern Cape,” Prieska is the seat of the Municipality and it is situated 240km west of Kimberley on the N10 route and is located on the hills of the Doring Mountain on the south banks of the Orange River, with the following coordinates; Latitude = 22°43’02” and Longitude = 29°39’36”. It lies about 940km above sea level and is 180km from De Aar, the seat of the Pixley Ka Seme Municipality, and 294 km from Upington. Prieska is also almost in the middle of the Northern Cape Province. It was originally named *Priescab*, a Koranna word meaning “Place of the lost she-goat.”

Prieska, which is known for its semi-precious stones, was founded in 1882 and became a municipality in 1892. It used to be a fording place for travellers. Prieska used to be served by rail via the railway line between De Aar and Namibia. Light aircraft can be accommodated on their landing strip. Prieska is use to very hot summers and frosty winters with sunny days.



#### b. Niekerkshoop

This town is 63km from Prieska on the other side of the Orange River on the route to Griekwasted.







### c. Marydale

Established in 1903 by the Dutch Reformed Church, Marydale was named after the wife of Mr. G. P. Snyman, owner of the farm Kalkput on which the town was laid out. Snyman donated the farm and Marydale was subsequently founded as a church town. This town is approximately 70km northwest of Prieska and about 20km from the Orange River. Marydale is 175km from Upington and is mainly dependent on farming, agriculture and a rich underground water source that serves the town by means of boreholes and wind pumps.

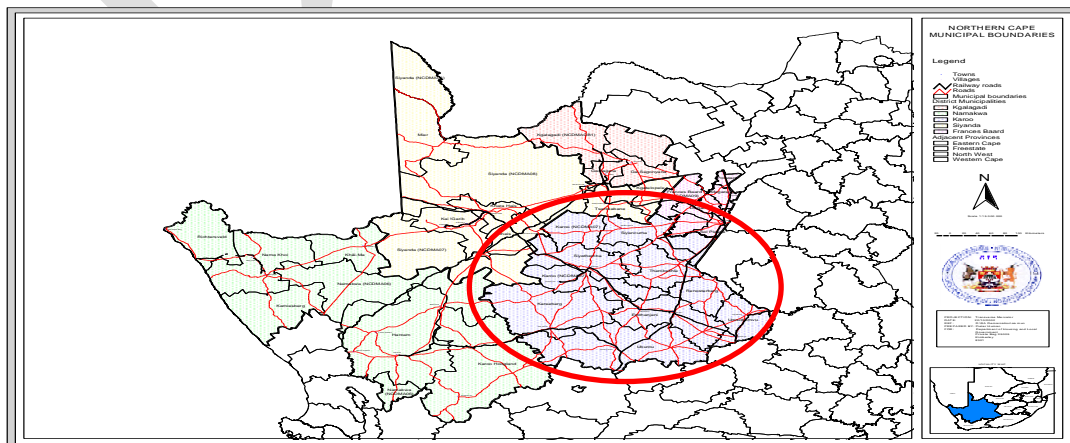




### District Setting

Siyathemba Municipality is part of the Pixley Ka Seme District in the Northern Cape Province in South Africa. The district area is located in the centre of the country and the 6 national route traverses the area. Traffic flows through the Pixley Ka Seme Region linking the major industrial areas of the country. The area has a low rainfall while the largest river in South Africa flows through it. Three of the major dams in South Africa are situated on the borders of the Karoo

The Pixley Ka Seme District covers an area of 8 251 square kilometres as shown in table 2, with rainfall mainly in the summer months and relatively low. As a result of the scarcity of rainfall, with the exception of the small stock farming, all economic activities in the region are concentrated around the Orange River.

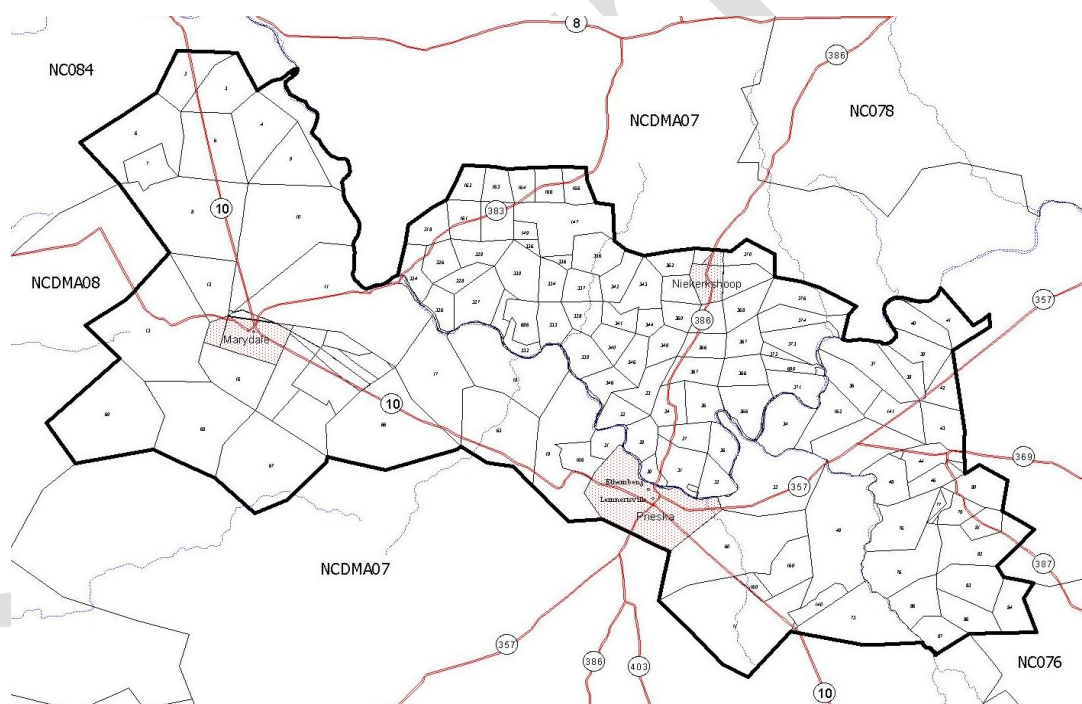


**Pixley Ka Seme District Municipal Area**

### The Local Municipal Setting

The area consists of three towns, of which Prieska serve as the seat of the Municipality. Siyathemba Municipality has eight Councillors elected to the Council indirectly and on a proportional basis. The Municipal Council has a Mayor who serves as the Speaker and seven members.

Mayor & PR Counsellor	P Papier	ANC
Ward Counsellor	M Van Wyk	ANC
Ward Counsellor	E Martin	ANC
Ward Counsellor	D Molepo	ANC
Ward Counsellor	G Speelman	ANC
Counsellor: District	R Ithumeleng	ANC
Counsellor: PR	G Macdonald	COPE
Counsellor: PR	B Titus	COPE
Counsellor: PR	G Mackay	DA



**Table 1 - Local Municipality Structure**

Local Municipality	Components	Councillors	System	Wards
Siyathemba	Prieska	5	Plenary executive system combined with a ward participatory system.	4
	Marydale	2		
	Niekerkshoop	1		
Pixley Ka Seme DM	District	1		

Source: Municipal Structures Act 1998.

**Table 2: Land Cover by Local Municipalities**

Municipality	Area (Km <sup>2</sup> )	% Of Total
Siyathemba	8 251	8

Source: Municipal Profiles 2002



## Background of Municipal Area

### Agriculture

Wheat, maize and lucerne are very important crops but the possibility exists that there can be a shift to alternative high value crops. As stated small stock farming is one of the attributes of the Region and therefore the Region has a strong history of wool farming and this can benefit farm diversification into more lucrative ventures, like cashmere production.

#### ⇒ Stock farming



Stock farming takes place throughout the whole region and is mainly focussed on small stock, consisting of sheep and goats. The sheep farming produces mutton and wool. There are several abattoirs in the region with the largest located in the Emthanjeni municipal area with a capacity of 2000 sheep slaughtered per day.

The huge potential for the region lies in adding value to the products within the area. At present products are leaving the areas in unprocessed form.

The area also produces large quantities of wool that is processed in the Eastern Cape. The area is the largest wool-producing region in South Africa and again offers the potential of benefaction within the region.

#### ⇒ Irrigation



The Orange River and the Vaal River run through the region and irrigation farming is confined to outlying the areas where irrigation farming is practised along these rivers.

Irrigation farming forms a large part of the agricultural activities in the region and numerous products are cultivated along the rivers:

1. Maize
2. Peanuts
3. Lucerne
4. Grapes
5. Dry Beans
6. Soya Beans
7. Potatoes
8. Olives
9. Pop Corn
10. Pecan Nuts
11. Pistachio Nuts
12. Cotton

These products also leave the area in the raw and there is potential for benefaction within the Karoo District. Products produced under the climatic conditions in the region are considered as some of the healthiest available.

## Industry



Industries in the area are mostly confined to light industries. The rivers provide a constant supply of water in certain parts of the region, which at least offer the potential of using the products produced in the area as a basis for benefaction.

The District, in the Centre of South Africa, is blessed with a well looked after road and rail network where 4 of the major roads are national routes.

The N1 and N12 routes link the two main economic centres, i.e., Gauteng and the Western Cape and both these routes carry thousands of tons of valuable goods and material every day to all parts of the country.

The N9 and N10 routes link Namibia and Gauteng with the coastline of Port Elizabeth, which is also the nearest export harbour for the Karoo District.

The rail network around De Aar and Noupoot is one of the largest in South Africa and no fewer than 30 trains pass through the De Aar station daily in both directions; to and from the main economic centres in South Africa.

On average 9 freight trains between Gauteng and the Western Cape pass through the station at De Aar every day, 4 to Port Elizabeth, 2 to Namibia and 10 from De Aar to Kimberley. The station at De Aar has direct or indirect links to virtually every corner of South Africa.

An average of 1 000 000 tons are conveyed through this station every month and the capacity exists to increase this tonnage with ease.

ESKOM, the country's largest supplier of electricity, has a major presence in the Karoo as its regional Office is situated in Colesberg, with a presence in nearly every town in the Karoo.

One of ESKOM's largest sub-stations – Hydra – is located near De Aar, supplying high voltage power especially to the Western Cape and the rural areas.

## Electricity

This electricity is mainly generated in the Northern Areas of the country and distributed to the surrounding smaller towns of the southern regions via the central corridor. Spoornet's power lines also originate at Hydra. Twenty-three trained personnel staff the station.

The Vanderkloof Dam is used by ESKOM to generate peak demand electricity. The 112m high dam wall houses two 120-megawatt generators, which supply peak demand. Power is generated by turbine engines with an outflow of 150 cubic metres of water per second, into the second largest dam in South Africa.

# Vision & Mission

## Vision

- Siyathemba undertakes to improve the standard of living of its entire community by delivering visible and affordable services.

## Mission

- To be a developmental municipality, which has the interest of its communities at the centre of all its activities.
- This will be done through:*
  - an optimal distribution of resources
  - economic development through job creation and a poverty reduction strategies
  - effective and efficient service delivery through optimal distribution and human resources development; and
  - effective and efficient maintenance of equipment and buildings



*Municipality  
Siyathemba  
Munisipaliteit*



*Financial Viability Report*  
**2010 - 2011**



**INTRODUCTION**

The main aim of the Department of Finance is to ensure that the Siyathemba Municipality is financially sustainable to fulfil its developmental role. In order to do this, Council follows a practice of sound, conservative budgeting aimed at enhancing financial resources through maximised revenue collection and controlling costs to the minimum necessary expenditure.

**FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2011****1) Review of operating results (summary)**

The overall operating results for the year ending 30 June 2011 as well as the comparison with the budgeted figures and the actual results of 2010 are reflected in the following table:

<b>1. Review of operating results (summary)</b>					
Description	Actual 2011	Budget 2011	Variance	Variance Actual as % of Budget	Actual 2010
Total Income	55 076 792	57 518 667	-2 441 875	-4%	54 142 667
Total Expenditure	58 652 700	57 518 668	1 134 032	2%	46 226 106
Net surplus/(deficit for the year	-3 575 908		-3 575 907		7 916 561

<b>2. Revenue (Actual vs. Budget)</b>		2011 R (Actual)	2011 R (Budget)	2011 R (Variance)	2011 (%)
<b>REVENUE</b>					
Property Rates		4 869 689	4 807 786	61 903	1%
Government Grants and Subsidies - Capital		18 264 539	-	18 264 539	100%
Government Grants and Subsidies - Operating		13 819 075	32 137 190	(18 318 115)	-57%
Public Contributions and Donations		-	-	-	0%
Third Party Payments		83 268	(43 700)	126 968	-291%
Fines		30 687	24 100	6 587	27%
Service Charges		16 854 636	17 068 411	(213 775)	-1%
Rental of Facilities and Equipment		356 615	516 980	(160 365)	-31%
Interest Earned - external investments		70 953	80 000	(9 047)	-11%
Interest Earned - outstanding debtors		621 041	625 000	(3 959)	-1%
Licences and Permits		(2 095 932)	670 000	(2 765 932)	-413%
Agency Services		1 614 655	1 250 000	364 655	29%
Other Income		574 404	382 900	191 504	50%
Gain on disposal of Property, Plant and Equipment		13 162	-	13 162	100%
<b>Total Revenue</b>		<b>55 076 792</b>	<b>57 518 667</b>	<b>(2 441 875)</b>	<b>-4%</b>

<b>3. Expenditure (Actual vs. Budget)</b>		<b>2011</b>	<b>2011</b>	<b>2011</b>	<b>2011</b>
		<b>R</b>	<b>R</b>	<b>R</b>	
<b>EXPENDITURE</b>		<b>(Actual)</b>	<b>(Budget)</b>	<b>(Variance)</b>	<b>(%)</b>
Employee related cost		20 717 795	19 263 255	1 454 540	8%
Remuneration of Councillors		1 723 346	2 130 000	(406 654)	-19%
Debt Impairment		6 606 915	1 240 350	5 366 565	433%
Depreciation and Amortisation		9 305 120	150 000	9 155 120	6103%
Repairs and Maintenance		2 716 827	2 398 820	318 007	13%
Stock Adjustments		-	-	-	0%
Finance Costs		6 846	20 000	(13 154)	-66%
Bulk Purchases		7 242 761	7 800 000	(557 239)	-7%
Contracted services		-	-	-	0%
Grants and Subsidies		101 289	400 000	(298 711)	-75%
Operating Grant Expenditure		2 785 000	18 806 717	(16 021 717)	-85%
General Expenses		7 446 801	5 309 525	2 137 275	40%
<b>Total Expenditure</b>		<b>58 652 700</b>	<b>57 518 668</b>	<b>1 134 033</b>	<b>2%</b>
<b>Net surplus for the year</b>		<b>(3 575 908)</b>	<b>(0)</b>	<b>(3 575 908)</b>	

<b>4. Expenditure by vote(Actual vs. Budget)</b>		<b>2011</b>	<b>2011</b>	<b>2011</b>	<b>2011</b>
		<b>R</b>	<b>R</b>	<b>R</b>	
		<b>(Actual)</b>	<b>(Budget)</b>	<b>(Variance)</b>	<b>(%)</b>
Council		4 867 985	3 430 768	1 437 216	42%
Municipal Manager		4 719 292	3 056 633	1 662 659	54%
Administration: Treasury		19 510 993	8 126 088	11 384 905	140%
Land		43 520	30 000	13 520	45%
Housing Scheme Employees		17 546	18 000	(454)	-3%
Municipal Buildings		358 076	346 730	11 346	3%
Libraries		1 002 284	999 837	2 447	0%
Cemetries		(56)	18 500	(18 556)	-100%
Camping		173 020	27 400	145 620	531%
Parks and Recreation		788 827	1 043 826	(254 999)	-24%
Fire brigade		5 224	18 000	(12 776)	-71%
Disaster Management		25 570	80 000	(54 430)	-68%
Health		2 233	40 000	(37 767)	-94%
Public Works		4 853 970	12 477 992	(7 624 022)	-61%
Roads		1 710	8 571 482	(8 569 772)	-100%
Licences and Traffic		1 134 311	1 184 512	(50 201)	-4%
Electricity		9 014 700	8 354 465	660 235	8%
Water		6 227 425	4 723 558	1 503 867	32%
Sanitation		3 705 292	2 750 309	954 983	35%
Refuse		2 199 221	2 214 441	(15 220)	-1%
Landing field		1 557	6 126	(4 569)	-75%
<b>Total Expenditure</b>		<b>58 652 700</b>	<b>57 518 668</b>	<b>1 134 033</b>	<b>2%</b>

<b>5. Cash and cash equivalents</b>					
				<b>2011</b>	<b>2010</b>
				<b>R</b>	<b>R</b>
<b>Assets</b>					
Call Investments Deposits				754 587	2 060
Bank Accounts				-	-
Total Cash and Cash Equivalents - Assets				754 587	2 060
				<b>2011</b>	<b>2010</b>
				<b>R</b>	<b>R</b>
<b>Liabilities</b>					
Primary Bank Account				578 986	553 417
Correction done on opening balance					18 546
Total Cash and Cash Equivalents - Liabilities				578 986	571 962
Cash and cash equivalents comprise cash held and short term deposits. The carrying amount of these assets approximates their fair value.					
Bank overdraft facility of R750 000 exists at ABSA.					
The municipality has the following bank accounts:					
<b>Current Accounts</b>					
Prieska ABSA - Account Number 40-5355-2997 (Primary Bank Account):				(578 986)	(571 962)
				(578 986)	(571 962)
Prieska ABSA - Account Number 40-5355-2997 (Primary Bank Account):					
Cash book balance at beginning of year				(571 962)	968 704
Cash book balance at end of year				(578 986)	(571 962)
Bank statement balance at beginning of year				(568 012)	954 327
Bank statement balance at end of year				(477 645)	(568 012)

<b>6. Property, plant and equipment</b>									
	Cost				Accumulated Depreciation				Carrying Value
	Opening Balance	Additions	WIP	Closing Balance	Opening Balance	Additions	Disposals	Closing Balance	
'30 June 2011									
Land and Buildings	33 700 300	-	-	33 700 300	598 260	199 420	-	797 680	32 902 620
Infrastructure	241 251 295	-	12 122 011	253 373 306	25 578 093	8 646 227	-	34 224 319	219 148 986
Other Assets	3 789 707	378 834	-	4 168 540	1 378 419	459 473	-	1 837 892	2 330 648
Total	278 741 301	378 834	12 122 011	291 242 146	27 554 772	9 305 120	-	36 859 891	254 382 255

<b>7. Receivables from exchange transactions</b>				
			<b>2011</b>	<b>2010</b>
			<b>R</b>	<b>R</b>
Electricity			944 463	694 606
Water			8 740 596	5 576 536
Rental			21 467	15 935
Refuse			1 337 645	1 048 601
Sewerage			5 884 436	4 550 985
Corrections done on opening balances			-	191 734
Other Consumer debtors			1 988 381	825 279
Sundry Receivables			401 356	759 856
Balance previously reported				385 349
Reversal of Long-term Receivables previously reclassified without sufficient supporting documents.				374 507
Other deposits			23 341	25 414
<b>Total Receivables from Exchange Transactions</b>			<b>19 341 685</b>	<b>13 688 946</b>
Less: Allowance for Doubtful Debts			<b>(17 516 489)</b>	<b>(12 027 164)</b>
<b>Total Net Receivables from Exchange Transactions</b>			<b>1 825 196</b>	<b>1 661 781</b>
Consumer debtors are payable within 30 days. This credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation.				
Discounting of trade and other receivables on initial recognition is not deemed necessary.				
The outstanding consumer accounts are secured by the consumer deposits paid only.				



**Ageing of Receivables from Exchange Transactions:****(Electricity): Ageing**

Current (0 - 30 days)	722 457	560 771
31 - 60 Days	72 655	66 341
61 - 90 Days	44 983	12 661
+ 90 Days	104 368	54 833
<b>Total</b>	<b>944 463</b>	<b>694 606</b>

**(Water): Ageing**

Current (0 - 30 days)	272 513	290 584
31 - 60 Days	169 982	151 909
61 - 90 Days	162 156	145 760
+ 90 Days	8 135 946	4 988 283
<b>Total</b>	<b>8 740 596</b>	<b>5 576 536</b>

**(Refuse): Ageing**

Current (0 - 30 days)	79 732	76 281
31 - 60 Days	43 394	35 709
61 - 90 Days	34 633	29 931
+ 90 Days	1 179 886	906 680
<b>Total</b>	<b>1 337 645</b>	<b>1 048 601</b>

**(Sewerage): Ageing**

Current (0 - 30 days)	264 291	247 046
31 - 60 Days	160 321	126 355
61 - 90 Days	139 609	118 800
+ 90 Days	5 320 214	4 250 518
<b>Total</b>	<b>5 884 436</b>	<b>4 742 719</b>

**(Rental): Ageing**

Current (0 - 30 days)	4 048	4 512
31 - 60 Days	714	582
61 - 90 Days	476	450
+ 90 Days	16 230	10 391
<b>Total</b>	<b>21 467</b>	<b>15 935</b>

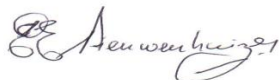
**(Other): Ageing**

Current (0 - 30 days)	59 903	21 525
31 - 60 Days	54 070	8 282
61 - 90 Days	75 518	7 783
+ 90 Days	2 200 246	1 547 546
<b>Total</b>	<b>2 389 737</b>	<b>1 585 135</b>

**(Total): Ageing**

Current (0 - 30 days)	1 402 945	1 200 719
31 - 60 Days	501 135	389 178
61 - 90 Days	457 375	315 385
+ 90 Days	16 956 889	11 758 250
<b>Total</b>	<b>19 318 344</b>	<b>13 663 531</b>

<b>8. Payables from exchange transactions</b>		<b>2011</b>	<b>2010</b>
		<b>R</b>	<b>R</b>
Trade Payables		6 927 492	3 172 015
Sundry Creditors		40	40
Sundry Deposits		3 944	3 402
Department of Safety - Agency services		371 578	371 578
Suspense accounts in credit		1 113 206	51 220
<b>Total Trade Payables</b>		<b>8 416 259</b>	<b>3 598 256</b>
<b>9. Government Grants and Subsidies</b>		<b>2011</b>	<b>2010</b>
		<b>R</b>	<b>R</b>
<b>Unconditional Grants</b>		<b>15 440 466</b>	<b>12 345 966</b>
Equitable Share		15 440 466	12 345 966
<b>Conditional Grants</b>		<b>16 643 148</b>	<b>21 123 193</b>
Grants and donations		16 643 148	21 123 193
<b>Total Government Grants and Subsidies</b>			
Government Grants and Subsidies - Capital		18 264 539	17 743 445
Government Grants and Subsidies - Operating		13 819 075	15 725 715
		<b>32 083 614</b>	<b>33 469 160</b>
<b>10. Audit fees - [MFMA 125 (1)(c)]</b>		<b>2011</b>	<b>2010</b>
		<b>R</b>	<b>R</b>
Opening balance		1 603 054	779 011
Current year audit fee		866 622	1 410 325
External Audit - Auditor-General		866 622	1 286 083
Internal Audit		-	114 242
Audit Committee		-	10 000
Amount paid - current year		(700 000)	(586 282)
<b>Balance unpaid (included in creditors)</b>		<b>1 769 676</b>	<b>1 603 054</b>



.....  
**HEINRICH NIEUWENHUIZEN**  
**CHIEF FINANCIAL OFFICER**

*Municipality  
Siyathemba  
Munisipaliteit*



*Internal Audit Committee Report*  
**2010-2011**

## Executive Summary

The Audit Committee was appointed by Council in terms of Section 166 of the Municipal Financial Management Act, Act 56 of 2003. The Audit Committee was mandated, by means of an Audit Committee Charter, to execute responsibilities. The charter was approved by the Mayor, the Municipal Manager and the Audit Committee members.

The following members served on the Audit Committee:

Ms. C Penderis	Member
Mr. M van der Westhuizen	Member

The members of the Audit Committee are in the Siyathemba Municipality Area and written declarations of interest have been obtained to prove their independence.

## Audit Committee Responsibility:

The Audit Committee reports that it has complied, as far as possible, with its responsibility arising from Section 166(2) of the MFMA. Their responsibility includes the following:

- ✓ Advise the Municipal Council, the Political Office-bearers, the Accounting Officer and the Management Staff on the matters relating to:
  - Internal financial control, and Internal Audits
  - Accounting Policies
  - The adequacy, reliability and accuracy of financial reporting and information
  - Performance Management System
  - Effective governance
  - Compliance with information
  - Risk Management
  - Any other issues referred to it by the Municipality.

The internal audit committee issued Internal Audit Reports to the Committee regarding the above mentioned components. Findings which were not resolved by Management were brought to the attention of the Committee. Recommendations made by the Audit Committee were implemented and reviewed by the Internal Audit Unit during follow-up procedures.

- ✓ Review of the Annual Financial Statements to provide the Council with an authoritative and credible view of the financial position of the Municipality and its overall level of compliance with legislation.
- ✓ Respond to council on any issues raised by the Auditor-General in the Audit Report.
- ✓ Carry out any investigation into the financial affairs of the Municipality, as may be requested. The audit committee did not receive any requests for special investigations from the municipality.

## Risk Management

The municipality is in the process of developing a Risk Management Strategy. This strategy is the foundation for a continuous risk assessment process and for managing and monitoring risk on an on-going basis. A Risk Management Policy will also be approved by council to ensure that Risk Management receives the necessary attention it deserves.



*Municipality  
Siyathemba  
Munisipaliteit*



*Infrastructure and Housing Services*  
**2010-2011**

**Infrastructure and Housing Services**

The main function of the Department is the maintenance of existing and provision of new Infrastructure services and Community facilities.

The Department is also responsible for the wiping out of service backlogs.

The Infrastructure Department contributes to various new infrastructures

- Completion of 43 houses in Marydale.
- The construction of tarred roads in Prieska ( MIG ) project.
- The upgrade of Water supply Infrastructure in Marydale ( MIG ) project of R2.6 mil
- The upgrading of cemeteries in Prieska ,Marydale and Niekerkshoop ( MIG )
- The upgrade of Solid waste sites in Prieska and Marydale (MIG )
- Funding from DWA for the Water and Sanitation improvement.

The Infrastructure Department includes the following sections.

- Cemeteries
- Parks and Recreation
- Refuse Removal
- Sewerage and Sanitation
- Electricity
- Water
- Roads and Storm water
- Municipal Infrastructure and Buildings
- IDP and LED Unit

The staff establishment is currently facing the shortage of personnel especially general workers, while all other positions have been filled. During the past financial year personnel has retire, while other has passed away.

*The establishment of the various sections is set out below:*

<b>Infrastructure Manager</b>	<b>1</b>
<b>Assistant Manager Infrastructure &amp; IDP/LED Unit</b>	<b>1</b>
<b>Water</b>	<b>11</b>
<b>Electricity</b>	<b>5</b>
<b>Sewerage and Sanitation</b>	<b>18</b>
<b>Refuse and Parks</b>	<b>23</b>
<b>Roads and Storm Water</b>	<b>18</b>
<b>TOTAL</b>	<b>77</b>

During the past 6 months the Municipality also appoints people on a temporary basis in order to deliver services to the people in Siyathemba.

**New Infrastructure**

The Municipality is dependent on Grant Funding for new Infrastructure, because we did not have a Capital Reserve Fund.

**Town Planning and Building Centre**

The staff involved in Town Planning and Building Centre provides information to other departments as well as Consulting Engineers and Consultants regarding proposed developments and land information on a continuous basis.

### **Water Services**

In Prieska we receive our Bulk Water supply from the Orange River, which is a reliable source for continuous water abstraction to purify and provide Prieska town with good drinking water. Untreated water is also abstracted from the Orange River for Irrigation purpose on a small scale in a certain part of Prieska. The water treatment Works in Prieska has a capacity of 15 mega liter per day, but currently we run at 4 – 5 mega liters per day. The water treatment works in Prieska also provide purified water to Alkantpan Test Range about 70km from Prieska.

Water supply for Marydale and Niekerkshoop come from boreholes and therefore we rely on groundwater for these 2 towns.

Marydale water supply come from 7 boreholes and Niekerkshoop supply come from 6 boreholes.

Spare pumps and motors are always kept in stock as well as water supply materials and spares. Continuous operation and maintenance take place on water meters as well as on the water supply network.

Water services provide a full time standby service and therefore officials are provided with cell phones for 24 hours availability.

### **Water Infrastructure Upgrade**

Currently we are busy to upgrade the Water Supply Network from the boreholes to the 2 reservoirs in Marydale. One of the reservoirs capacities will also be increased. This project is also a MIG Project with a contract value of R2, 679 million.

### **Sewerage and Sanitation**

Full water borne sewerage system is in operation in the whole town of Prieska except for the Industrial Area that is served by septic tanks that are emptied by a vacuum tanker truck. In the informal settlement there are 56 VIP toilets.

In Prieska there are 3 sewerage pump stations from where the sewerage are been pumped to the waste water treatment works. The 3 pump stations are cleaned every day to prevent interruptions. Every pump station is equipped with 2 submersible pumps in order to ensure that no sewerage spills occurs. We also have spare submersible pumps in stock to fix pump problems quickly when a pump becomes faulty.

The waste water treatment works was upgraded in 2008 and have the capacity to handle future development for about 15 years. In Marydale and Niekerkshoop the sanitation and sewerage services are mainly VIP toilets and septic tanks. This service in Marydale and Niekerkshoop are supplied by a tractor with a vacuum tank wagon.

In Marydale there are also 155 buckets still in use due to a housing project that cannot be completed as well as VIP toilets that collapse due to poor soil conditions. Sewerage blockages in Prieska are handled in a quick manner to prevent sewerage spills in the streets or in people even. The municipality charges house owners a tariff when we open blockage on their behalf.

Sewerage service provides a full time (24 hour) standby service.

### **Blue Drop and Green Drop Program.**

The Municipality participates in the Blue and Green drop Program of the Department of Water Affairs. The past year personnel attend regular workshops of DWA in order to better our Blue and Green drop scores. Currently we did not qualify for a Blue and Green drop Status but with help from DWA we are busy to narrow the gaps in order to comply with the criteria.

Drinking water is tested by an Independent Laboratory on a monthly basis and results captured on the BDS System of DWA.

Our drinking water quality is of a good condition and safe for use by human beings.

#### **Refuse Removal**

These services are provided to all residents on a weekly basis. In parts of Prieska refuse removal are being done by means of Black refuse bags. In other areas people put out their refuse bins from where it is emptied onto a truck.

In Marydale and Niekerkshoop people also put out their bins from where it is being emptied onto a wagon.

In all 3 towns there are landfill sites where the refuse are being dumped. Problems occur in all 3 towns with illegal dumping of refuse that put an extra burden on the refuse removal service. Shortage of proper vehicles and equipment hamper these services delivery and need to be addressed.

#### **Refuse Infrastructure Upgrade**

Currently we are busy with 2 MIG Projects in Prieska and Marydale to upgrade the landfill sites in order to comply with legislation. These projects are MIG Projects with a value of R3, 9930 million.

#### **Cemeteries**

The council has 3 cemeteries in Prieska where burials take place. Currently we are busy with a MIG Project to upgrade, one of them because more space becomes essential.

In Niekerkshoop and Marydale there are also 2 cemeteries in each town where burials take place. In Niekerkshoop and Marydale we are currently also busy with a MIG Project in order to upgrade 2 cemeteries because more space is needed for burials.

#### **Airfield**

The Airfield in Prieska is suitable for airplanes to land and take off. There are 2 graveled runways that are graveled regularly. This airfield is registered with the Civil Aviation Authority and is inspected by them every year after which a license is issued to the Municipality.

#### **Commonage**

The Municipality's commonage covers an area of 33 000ha. The commonage is currently used mainly by emerging farmers. Infrastructure on the commonage are being vandalized by thief's who take away fences, windmills and other infrastructure.

#### **Streets and Public Works**

These services of the Municipality are being hampered by a shortage of the necessary equipment to maintain streets properly.

Most of the streets are gravelled roads and needs to be urgently re-gravelled, but due to the fact that the front-end loader and the roller are very old this work cannot be started. The vehicles must also do work in Marydale and Niekerkshoop.

The shortage of vehicles to maintain street leads to the deterioration of the condition of streets. Tarred roads need urgent resurfacing but due to financial shortfalls we are busy to apply for MIG funding to do the resurfacing.



Although we experienced financial constraints potholes are repaired on a regular basis.

### **Infrastructure Upgrading**

A MIG project for the upgrading of gravelled roads to tarred roads to the amount of R54, 727m has already been approved. An application for the resurfacing of tarred roads is also submitted for approval out of MIG funding.

### **Electricity Services**

Electricity service is done by the municipality in a part of Prieska. This is the smallest section in the infrastructure department and the staff establishment is currently 5 employees. Two areas in Prieska still need to be upgraded because the electricity network is old and power failures occur. The Municipality applied for money to upgrade it, but all applications at the Department of Energy have been turned down, because they argue that INEP funds cannot be allocated to upgrading of existing electricity infrastructure. The biggest part of Prieska, as well as the whole of Marydale and Niekerkshoop, are being supplied by ESKOM directly to customers.

Apart from meter inspections and new installations, maintenance work is done that relates to complaints received or faults which occur. Maintenance work includes:

- Maintenance of high and low voltage networks
- Maintenance of street and high mast lights
- New and maintenance of house connections
- Maintenance of electrical equipment at municipal installations and buildings such as water treatment works, borehole submersible pumps, sewerage pump stations, waste water treatment works etc.
- Offices
- Community halls

The electrical service provides a standby service on a full time (24hrs) basis in order to react to complaints and limit power failure to a minimum.



.....  
**J. BADENHORST**  
**TECHNICAL MANAGER**

*Municipality  
Siyathemba  
Munisipaliteit*



*Municipal Transformation  
&  
Organisational Development  
2010-2011*

## Introduction

The Corporate Services Directorate derives its mandate from Council's Key development objective i.e. institutional development, the IDP. It therefore means it is largely an internally focussed directorate with the primary aim to recruit employees and the development and enhancement of efficient administration systems. The strategic challenge for the municipality is to find better ways in delivery services to the Siyathemba Community in a holistic and integrated manner. It is therefore this Directorate's responsibility to ensure that the organisation is aligned to advance on the key objectives of the municipality by addressing human resource related issues and to amplify technological applications in the organisation

## Administration Services

As the administrative arm of Municipality, this section renders administrative support services to Council and its political structures. The political structures comprise the Executive Committee and Portfolio Committees, as well as ad hoc committees. The administrative support services entail the preparation of Council agendas and minutes, as well as facilitating communication between Council and the various directorates, to facilitate the implementation of political decisions.

## Record Division

The records division is entrusted with the core responsibility of managing the Municipality's official records by means of achieving the records, disposing of certain of those records and the transfer of records to the Provincial Archives. In general, this division manages access to records and also serves as a centre for the receipt, distribution and dispatch of correspondence to and from the public, as well as to Councillors.

## Human Resources





Siyathemba Municipal area has a significant unemployment figure. The recruitment and appointment process attempts to appoint local inhabitants of Siyathemba, first and foremost. However, the process does identify scarce skills, i.e. electricians, engineers, etc. and therefore recruits much wider. The HR section of Corporate Services consists of Training, Personnel administration, labour relations and Performance Management.

## Library

The Library Services renders an important educational service to the Siyathemba Community. The aim of the service is to take the libraries to the people. The main aim of the Siyathemba Library Service is to render an effective and efficient service to the community of Siyathemba. The Library provides information and recreational services to adults, learners and students. This section creates a culture of reading through educational programmes. We are also involved with Provincial Library Services in a Library Development Programme where we address the needs of Libraries through Financial Allocation from Provincial Administration.

## Traffic

This section consists of the following sub-sections:

-  Registration and Licensing
-  Traffic Law Enforcement
-  Municipal Law Enforcement
-  Administration

The main aim of Traffic Services is to ensure a safe traffic environment for road users within the boundaries of Siyathemba, secondly, to serve as an agent for Provincial Administration, i.e. Registrations.

### **Integrated Development Plan**

The Integrated Development Plan is a five year strategic development tool which guides planning, budgeting, implementation and annual review of performance, the purpose is to identify priority issues in conjunction with the communities, and allow us to apply the municipality's resources optimally.

The IDP guides the decision making of the municipality. The plan is developed in terms of the Municipal Systems Act, 32 of 2000 and its regulations. Chapter 4 of the Municipal Finance Management Act provides that the mayor should develop a budget programme to ensure community participation in the review for 2008-2009. The communities were consulted with regard to their needs and aspirations. This was done in line with the process plan as adopted.

The annual review of the IDP was adopted and implemented. All challenges were carried forward to the following year. The municipality is ensuring that we improve annually on service delivery and it is reflected in the IDP.

### **Website Upgrade**

The Municipality started to upgrade the website. We have transferred the domain and this was done to improve the system. It is already running and we should now ensure that we task an official to maintain the website. This is necessary based on the fact that legislation requires that a number of policies, reports and documents must be reflected in the website. The address for the website is [www.siyathemba.gov.za](http://www.siyathemba.gov.za)

*Municipality  
Siyathemba  
Munisipaliteit*



*Audited Annual Financial Statements*  
**2010-2011**



## SIYATHEMBA LOCAL MUNICIPALITY

### Index

<b>Contents</b>	<b>Page</b>
General Information	31
Approval of the Financial Statements	32
Report of the Auditor General	
Statement of Financial Position	33
Statement of Financial Performance	34
Statement of Changes In Net Assets	35
Cash Flow Statement	36
Accounting Policies	37-60
Notes to the Financial Statements	61-85
<b>APPENDICES - Unaudited</b>	
A Segmental Statement of Financial Performance - Municipal Votes	86
B Segmental Statement of Financial Performance	87
C Disclosure of Grants and Subsidies In Terms of Section 123 of MFMA, 56 of 2003	88

# SIYATHEMBA LOCAL MUNICIPALITY

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

### GENERAL INFORMATION

#### NATURE OF BUSINESS

Siyathemba Municipality is a local municipality performing the functions as set out in the Constitution. (Act no 105 of 1996)

#### COUNTRY OF ORIGIN AND LEGAL FORM

South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act. (Act no 117 of 1998)

#### JURISDICTION

The Siyathemba Municipality includes the following areas:

*Prieska  
Marydale  
Niekerkshoop*

#### MUNICIPAL MANAGER

*Mr. GJ Bessies*

#### CHIEF FINANCIAL OFFICER

*Mr. H Nieuwenhuizen*

#### REGISTERED OFFICE

*Municipal Offices, Victoria Street, Prieska, 8940*

#### AUDITORS

*Office of the Auditor General (NC)*

#### PRINCIPLE BANKERS

*ABSA*

#### RELEVANT LEGISLATION

Municipal Finance Management Act (Act no 56 of 2003)  
Division of Revenue Act  
The Income Tax Act  
Value Added Tax Act  
Municipal Structures Act (Act no 117 of 1998)  
Municipal Systems Act (Act no 32 of 2000)  
Municipal Planning and Performance Management Regulations  
Water Services Act (Act no 108 of 1997)  
Housing Act (Act no 107 of 1997)  
Municipal Property Rates Act (Act no 6 of 2004)  
Electricity Act (Act no 41 of 1987)  
Skills Development Levies Act (Act no 9 of 1999)  
Employment Equity Act (Act no 55 of 1998)  
Unemployment Insurance Act (Act no 30 of 1966)  
Basic Conditions of Employment Act (Act no 75 of 1997)  
Supply Chain Management Regulations, 2005  
Collective Agreements  
Infrastructure Grants  
SALBC Leave Regulations

## SIYATHEMBA LOCAL MUNICIPALITY

### MEMBERS OF THE SIYATHEMBA LOCAL MUNICIPALITY

#### COUNCILLORS

P Papier	Mayor
FM van Wyk	
E Martin	
J Molepe	
G MacDonald	
BA Titus	
GP Mackay	

#### APPROVAL OF FINANCIAL STATEMENTS

I am responsible for the preparation of these annual financial statements, which are set out on pages 1 to 67 in terms of Section 126 (1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.



Mr. GJ Bessies  
Municipal Manager

04-Oct-11

Date

SIYATHEMBA LOCAL MUNICIPALITY			
STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2011			
	Notes	2011 R	2010 R
<b>NET ASSETS AND LIABILITIES</b>			
<b>Net Assets</b>		<b>244 651 813</b>	<b>248 227 721</b>
Accumulated Surplus/(Deficit)		244 651 813	248 227 721
<b>Non-Current Liabilities</b>		<b>322 321</b>	<b>19 520</b>
Long-term Liabilities	2	302 801	-
Employee benefits	3	19 520	19 520
<b>Current Liabilities</b>		<b>13 282 572</b>	<b>9 418 739</b>
Consumer Deposits	4	340 885	385 099
Current Employee benefits	5	1 655 751	992 570
Payables from exchange transactions	6	8 416 259	3 598 256
Unspent Conditional Government Grants and Receipts	7	1 655 323	3 426 529
Taxes	8.1	587 934	444 323
Cash and Cash Equivalents	15	578 986	571 962
Current Portion of Long-term liabilities	2	47 433	-
<b>Total Net Assets and Liabilities</b>		<b>258 256 705</b>	<b>257 665 980</b>
<b>ASSETS</b>			
<b>Non-Current Assets</b>		<b>254 484 095</b>	<b>251 301 485</b>
Property, Plant and Equipment	9	254 382 255	251 186 530
Long-Term Receivables	10	101 840	114 955
<b>Current Assets</b>		<b>3 772 610</b>	<b>6 364 495</b>
Inventory	11	211 465	150 822
Receivables from exchange transactions	12	1 825 196	1 661 781
Receivables from non-exchange transactions	13	959 755	4 527 974
Operating Lease Asset	14.1	8 492	10 670
Taxes	8	-	-
Current Portion of Long-term Receivables	10	13 115	11 187
Cash and Cash Equivalents	15	754 587	2 060
<b>Total Assets</b>		<b>258 256 705</b>	<b>257 665 980</b>

SIYATHEMBA LOCAL MUNICIPALITY					
STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2011					
	Notes	2011 (Actual) R	2010 (Restated) R	Correction of error R	2010 (Previously reported) R
<b>REVENUE</b>					
Revenue from Non-exchange Transactions		37 067 258	38 223 451	6 824	38 216 626
<b>Taxation Revenue</b>		<b>4 869 689</b>	<b>4 675 778</b>	<b>6 824</b>	<b>4 668 954</b>
Property taxes	16	4 869 689	4 675 778	6 824	4 668 954
<b>Transfer Revenue</b>		<b>32 083 614</b>	<b>33 469 160</b>	-	<b>33 469 159</b>
Government Grants and Subsidies - Capital	17	18 264 539	17 743 445	-	-
Government Grants and Subsidies - Operating	17	13 819 075	15 725 715	-	33 469 159
Public Contributions and Donations		-	-	-	-
<b>Other Revenue</b>		<b>113 955</b>	<b>78 513</b>	-	<b>78 513</b>
Third Party Payments		83 268	-	-	-
Fines		30 687	78 513	-	78 513
<b>Revenue from Exchange Transactions</b>		<b>18 009 534</b>	<b>15 919 216</b>	<b>(353 658)</b>	<b>16 272 874</b>
Service Charges	18	16 854 636	13 390 995	17 920	13 373 074
Rental of Facilities and Equipment		356 615	587 659	-	587 659
Interest Earned - external investments		70 953	53 249	-	53 249
Interest Earned - outstanding debtors		621 041	534 577	-	534 577
Licences and Permits		(2 095 932)	812 680	812 680	-
Agency Services		1 614 655	-	(1 184 258)	1 184 258
Other Income	19	574 404	367 034	-	367 034
Gain on disposal of Property, Plant and Equipment		13 162	173 023	-	173 023
<b>Total Revenue</b>		<b>55 076 792</b>	<b>54 142 667</b>	<b>(346 833)</b>	<b>54 489 500</b>
<b>EXPENDITURE</b>					
Employee related cost	20	20 717 795	15 130 240	(398)	15 447 452
Remuneration of Councillors	21	1 723 346	2 200 466	-	1 883 652
Debt Impairment	22	6 606 915	5 130 850	-	5 130 850
Depreciation and Amortisation	23	9 305 120	9 305 120	4 695 914	4 609 206
Repairs and Maintenance		2 716 827	2 013 977	-	2 013 977
Finance Costs	24	6 846	36 148	-	36 148
Bulk Purchases	25	7 242 761	4 592 702	-	4 592 702
Contracted services		-	-	-	-
Grants and Subsidies paid	26	101 289	86 251	-	86 251
Stock Adjustments		-	-	-	-
Operating Grant Expenditure		2 785 000	3 351 638	-	3 351 638
General Expenses	27	7 446 801	4 378 712	248	4 378 464
Loss on disposal of Property, Plant and Equipment		-	-	-	-
<b>Total Expenditure</b>		<b>58 652 700</b>	<b>46 226 106</b>	<b>4 695 764</b>	<b>41 530 341</b>
<b>NET SURPLUS/(DEFICIT) FOR THE YEAR</b>		<b>(3 575 908)</b>	<b>7 916 562</b>	<b>(5 042 597)</b>	<b>12 959 159</b>



SIYATHEMBA LOCAL MUNICIPALITY				
STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2011				
	Employee Benefits Reserve	Non-Current Provisions Reserve	Accumulated Surplus/ (Deficit)	Total
	R	R	R	R
<b>Balance at 1 JULY 2009</b>	-	-	143 116 995	143 116 995
Correction of error - Refer note 29	-	-	97 194 164	97 194 164
<b>Restated Balance at 1 JULY 2009</b>	-	-	240 311 159	240 311 159
Net Surplus for the year	-	-	7 916 562	7 916 562
<b>Balance at 30 JUNE 2010</b>	-	-	248 227 721	248 227 721
Net Deficit for the year	-	-	(3 575 908)	(3 575 908)
<b>Balance at 30 JUNE 2011</b>	-	-	244 651 813	244 651 813

SIYATHEMBA LOCAL MUNICIPALITY			
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2011			
		30 JUNE 2011	30 JUNE 2010
	Notes	R	R
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
<b>Receipts</b>			
Ratepayers and other		17 458 316	13 215 257
Government - operating		13 819 075	15 725 715
Government - capital		18 264 539	17 743 445
Interest		691 994	587 826
<b>Payments</b>			
Suppliers and employees		(37 209 809)	(33 683 047)
Finance charges	24	(6 846)	(36 148)
Transfers and Grants		(101 289)	(86 251)
<b>Cash generated by operations</b>	31	12 915 980	13 466 796
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Purchase of Property, Plant and Equipment	9	(12 122 011)	(15 651 994)
Proceeds on Disposal of Fixed Assets		13 162	173 023
Decrease in Long-term Receivables	10	11 187	384 015
<b>Net Cash from Investing Activities</b>		<b>(12 097 662)</b>	<b>(15 094 957)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Finance liability repaid		(28 600)	-
Increase/(Decrease) in Consumer Deposits		(44 214)	45 573
<b>Net Cash from Financing Activities</b>		<b>(72 814)</b>	<b>45 573</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>			
		<b>745 504</b>	<b>(1 582 588)</b>
Cash and Cash Equivalents at the beginning of the year		(569 902)	1 012 686
Cash and Cash Equivalents at the end of the year	32	175 602	(569 902)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>745 504</b>	<b>(1 582 588)</b>

## 1. ACCOUNTING PRINCIPLES AND POLICIES APPLIED IN THE ANNUAL FINANCIAL STATEMENTS

### 1.1. BASIS OF PREPARATION

The annual financial statements have been prepared on the accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise.

The annual financial statements have been prepared in accordance with the effective standards of Generally Recognised Accounting Practices (GRAP), including any interpretations and directives issued by the Accounting Standards Board (ASB) in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

Accounting policies for material transactions, events or conditions not covered by the GRAP reporting framework, have been developed in accordance with paragraphs 7, 11 and 12 of GRAP 3 and the hierarchy approved in Directive 5 issued by the Accounting Standards Board.

The municipality resolved to early adopt the following GRAP standards which have been issued but are not yet effective.

Standard	Description	Effective Date
GRAP 1 (Revised)	Presentation of Financial Statements	1 April 2011
GRAP 2 (Revised)	Cash Flow Statements	1 April 2011
GRAP 3 (Revised)	Accounting Policies, Changes in Accounting Estimates and Errors	1 April 2011
GRAP 4 (Revised)	The Effects of changes in Foreign Exchange Rates	1 April 2011
GRAP 9 (Revised)	Revenue from Exchange Transactions	1 April 2011
GRAP 10 (Revised)	Financial Reporting in Hyperinflationary Economies	1 April 2011
GRAP 11 (Revised)	Construction Contracts	1 April 2011
GRAP 12 (Revised)	Inventories	1 April 2011
GRAP 13 (Revised)	Leases	1 April 2011
GRAP 14 (Revised)	Events after the reporting date	1 April 2011
GRAP 16 (Revised)	Investment Property	1 April 2011
GRAP 17 (Revised)	Property, Plant and Equipment	1 April 2011
GRAP 19 (Revised)	Provisions, Contingent Liabilities and Contingent Assets	1 April 2011
GRAP 21	Impairment of non-cash-generating assets	1 April 2012
GRAP 23	Revenue from Non-Exchange Transactions	1 April 2012
GRAP 26	Impairment of cash-generating assets	1 April 2012
GRAP 100(Revised)	Non-current Assets held for Sale and Discontinued Operations	1 April 2011

The municipality resolved to formulate an accounting policy based on the following GRAP standards which have been issued but are not yet effective.

Standard	Description	Effective Date
GRAP 25	Employee Benefits	Unknown
GRAP 104	Financial Instruments	Unknown

Accounting policies for material transactions, events or conditions not covered by the above GRAP have been developed in accordance with paragraphs 8, 10 and 11 of GRAP 3.

A summary of the significant accounting policies, which have been consistently applied except where an exemption or transitional provision has been granted, are disclosed below.

Assets, liabilities, revenue and expenses have not been offset except when offsetting is permitted or required by a Standard of GRAP.

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated. The details of any changes in accounting policies are explained in the relevant notes to the Financial Statements.

In terms of Directive 7: "The Application of Deemed Cost on the Adoption of Standards of GRAP" issued by the Accounting Standards Board, the municipality applied deemed cost to Investment Property, Property, Plant and Equipment and Intangible Assets where the acquisition cost of an asset could not be determined.

If fair value at the measurement date cannot be determined for an item of property, plant and equipment, investment property or an intangible asset, an entity may estimate such fair value using depreciated replacement cost.

The cost for depreciated replacement cost is determined by using either one of the following:

- cost of items with a similar nature currently in the municipality's asset register;
- cost of items with a similar nature in other municipalities' asset registers, given that the other municipality has the same geographical setting as the municipality and that the other municipality's asset register is considered to be accurate;
- cost as supplied by suppliers.

## **1.2. PRESENTATION CURRENCY**

Amounts reflected in the financial statements are in South African Rand and at actual values. No foreign exchange transactions are included in the statements.

## **1.3. GOING CONCERN ASSUMPTION**

These annual financial statements have been prepared on a going concern basis.

## **1.4. COMPARATIVE INFORMATION**

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated, unless a standard of GRAP does not require the restatements of comparative information. The nature, amount and reason for the reclassification are disclosed. Where material accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

## **1.5. PRESENTATION OF BUDGET INFORMATION**

As noted, GRAP 24 is not yet effective, however budget information required in terms of GRAP 1 paragraph 14 to 18 have been disclosed in the financial statements. The presentation of budget information was prepared in accordance with the best practice guidelines issued by National Treasury.

#### 1.6. STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality:

Standard	Description	Effective Date
<b>GRAP 6 (Revised)</b>	<p><b>Consolidated and Separate Financial Statements</b></p> <p>The objective of this Standard is to prescribe the circumstances in which consolidated and separate financial statements are to be prepared and the information to be included in those financial statements so that the consolidated financial statements reflect the financial performance, financial position and cash flows of an economic entity as a single entity.</p> <p>No significant impact is expected as the municipality does not have any entities at this stage to be consolidated.</p>	<b>1 April 2011</b>
<b>GRAP 7 (Revised)</b>	<p><b>Investments in Associate</b></p> <p>This Standard prescribes the accounting treatment for investments in associates where the investment in the associate leads to the holding of an ownership interest in the form of a shareholding or other form of interest in the net assets.</p> <p>No significant impact is expected as the municipality does not have any investments in Associates.</p>	<b>1 April 2011</b>
<b>GRAP 8 (Revised)</b>	<p><b>Interest in Joint Ventures</b></p> <p>The objective of this Standard is to prescribe the accounting treatment of jointly controlled operations, jointly controlled assets and jointly controlled entities and to provide alternatives for the recognition of interests in jointly controlled entities.</p> <p>No significant impact is expected as the municipality is not involved in any joint ventures.</p>	<b>1 April 2011</b>
<b>GRAP 18</b>	<p><b>Segment Reporting</b></p> <p>The objective of this Standard is to establish principles for reporting financial information by segments.</p> <p>Information to a large extent is already included in the appendices to the annual financial statements which do not form part of the audited financial statements.</p>	<b>Unknown</b>
<b>GRAP 24</b>	<p><b>Presentation of Budget Information in Financial Statements</b></p> <p>This Standard requires a comparison of budget amounts and the actual amounts arising from execution of the budget to be included in the financial statements of entities that are required to, or elect to, make publicly</p>	<b>1 April 2012</b>



	<p>available their approved budget(s) and for which they are, therefore, held publicly accountable. The Standard also requires disclosure of an explanation of the reasons for material differences between the budget and actual amounts.</p> <p>Information to a large extent is already included in the notes to the annual financial statements and the impact is assessed to not be significant.</p>	
<b>GRAP 25</b>	<p><b>Employee Benefits</b></p> <p>The objective of this Standard is to prescribe the accounting and disclosure for employee benefits.</p> <p>Information to a large extent is already included in the notes to the annual financial statements as the principles of GRAP 25 was utilised in the current year to develop the accounting policy.</p>	<b>Unknown</b>
<b>GRAP 103</b>	<p><b>Heritage Assets</b></p> <p>The objective of this Standard is to prescribe the accounting treatment for heritage assets and related disclosure requirements.</p> <p>No adjustments necessary as the municipality has no significant heritage assets other than the assets currently accounted for in terms of GRAP 17.</p>	<b>1 April 2012</b>
<b>GRAP 104</b>	<p><b>Financial Instruments</b></p> <p>The objective of this Standard is to establish principles for recognising, measuring, presenting and disclosing financial instruments.</p> <p>Information to a large extent is already included in the notes to the annual financial statements as the principles of GRAP 104 was utilised in the current year to develop the accounting policy.</p>	<b>Unknown</b>
<b>GRAP 105</b>	<p><b>Transfer of Functions Between Entities Under Common Control</b></p> <p>The objective of this Standard is to establish accounting principles for the acquirer and transfer or in a transfer of functions between entities under common control.</p> <p>No significant impact is expected as the municipality does not participate in such business transactions.</p>	<b>Unknown</b>
<b>GRAP 106</b>	<p><b>Transfer of Functions Between Entities Not Under Common Control</b></p> <p>The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control.</p> <p>No significant impact is expected as the municipality does not participate in such business transactions.</p>	<b>Unknown</b>
<b>GRAP 107</b>	<p><b>Mergers</b></p> <p>The objective of this Standard is to establish accounting principles for the combined entity and combining entities in a merger.</p> <p>No significant impact is expected as the municipality does not participate in such business transactions.</p>	<b>Unknown</b>

## 1.7. RESERVES

### 1.7.1 *Capital Replacement Reserve (CRR)*

In order to finance the provision of infrastructure and other items of property, plant and equipment from internal sources, amounts are transferred from the accumulated surplus / (deficit) to the CRR. The cash in the CRR can only be utilized to finance items of property, plant and equipment. The CRR is reduced and the accumulated surplus / (deficit) are credited by a corresponding amount when the amounts in the CRR are utilised.

## 1.8. LEASES

### 1.8.1 *Municipality as Lessee*

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Property, plant and equipment subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine; if not, the lessee's incremental borrowing rate shall be used. Any initial direct costs of the lessee are added to the amount recognised as an asset. The interest rate implicit in the lease is the discount rate that, at the inception of the lease, causes the aggregate present value of the minimum lease payments, and the unguaranteed residual value to be equal to the sum of: the fair value of the leased asset, and any initial direct costs of the lessor.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant and equipment. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease payments are recognised on a straight-line basis over the term of the relevant lease.

Where the actual lease payment is more than the straight-line lease payment the difference is accounted for as operating lease asset. Where the actual lease payment is less than the straight-line lease payment the difference is accounted for as an operating lease liability.

### 1.8.2 *Municipality as Lessor*

Under a finance lease, the municipality recognises the lease payments to be received in terms of a lease agreement as an asset (receivable). The receivable is calculated as the sum of all the minimum lease payments to be received, plus any unguaranteed residual accruing to the municipality, discounted at the interest rate implicit in the lease. The receivable is reduced by the capital portion of the lease instalments received, with the interest portion being recognised as interest revenue on a time proportionate basis. The accounting policies relating to derecognition and impairment of financial instruments are applied to lease receivables.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease revenue is recognised on a straight-line basis over the term of the relevant lease.

Operating lease revenue is disclosed in the Statement of Financial Performance in the line item "Rental of Facilities and Equipment".

## **1.9. GOVERNMENT GRANTS AND RECEIPTS**

### **1.9.1 *Unspent Conditional Government Grants and Receipts***

Conditional government grants are subject to specific conditions. If these specific conditions are not met, the monies received are repayable.

Unspent conditional grants are financial liabilities that are separately reflected on the Statement of Financial Position. They represent unspent government grants and subsidies.

This liability always has to be cash-backed. The following provisions are set for the creation and utilisation of this creditor:

- Unspent conditional grants are recognised as a liability when the grant is received.
- When grant conditions are met an amount equal to the conditions met are transferred to revenue in the Statement of Financial Performance.
- The cash which backs up the creditor is invested as individual investment or part of the general investments of the municipality until it is utilised.
- Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor. If it is the municipality's interest it is recognised as interest earned in the Statement of Financial Performance.

### **1.9.2 *Unpaid Conditional Government Grants and Receipts***

Unpaid conditional grants are assets in terms of the Framework that are separately reflected on the Statement of Financial Position. The asset is recognised when the municipality has an enforceable right to receive the grant or if it is virtually certain that it will be received based on that grant conditions have been met. They represent unpaid government grants, subsidies and contributions from the public.

The following provisions are set for the creation and utilisation of the grants as receivables:

- Unpaid conditional grants are recognised as an asset when the grant is receivable.

## **1.10. UNSPENT PUBLIC CONTRIBUTIONS**

Public contributions are subject to specific conditions. If these specific conditions are not met, the monies received are repayable.

Unspent public contributions are financial liabilities that are separately reflected on the Statement of Financial Position. They represent unspent contributions from the public.

This liability always has to be cash-backed. The following provisions are set for the creation and utilisation of this creditor:

- Unspent public contributions are recognised as a liability when the grant is received.
- When grant conditions are met an amount equal to the conditions met are transferred to revenue in the Statement of Financial Performance.
- The cash which backs up the creditor is invested as individual investment or part of the general investments of the municipality until it is utilised.
- Interest earned on the investment is treated in accordance with the public contribution conditions. If it is payable to the funder it is recorded as part of the creditor. If it is the municipality's interest it is recognised as interest earned in the Statement of Financial Performance.

## **1.11. PROVISIONS**

Provisions are recognised when the municipality has a present legal or constructive obligation as a result of past events, it is possible that an outflow of resource embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision shall be the present value of the expenditures expected to be required to settle the obligation. The discount rate shall be a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The discount rate shall not reflect risks for which future cash flow estimates have been adjusted.

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits or service potential is remote. A contingent asset is disclosed where an inflow of economic benefits or service potential is possible.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met:

- (a) The municipality has a detailed formal plan for the restructuring identifying at least:
  - the business or part of a business concerned;
  - the principal locations affected;
  - the location, function and approximate number of employees who will be compensated for terminating their services;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented.
- (b) The municipality has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the reporting date.

If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provision shall be reversed.

## 1.12. EMPLOYEE BENEFITS

### (a) *Post-Retirement Medical Obligations*

The municipality provides post-retirement medical benefits by subsidizing the medical aid contributions of certain retired staff according to the rules of the medical aid funds. Council pays 70% as contribution and the remaining 30% is paid by the members. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The present value of the defined benefit liability is actuarially determined in accordance with GRAP 25 – Employee benefits (using a discount rate applicable to high quality government bonds). The plan is unfunded.

These contributions are charged to the Statement of Financial Performance when employees have rendered the service entitling them to the contribution. The liability was calculated by means of the projected unit credit actuarial valuation method. The liability in



respect of current pensioners is regarded as fully accrued, and is therefore not split between a past (or accrued) and future in-service element. The liability is recognised at the fair value of the obligation. Payments made by the municipality are set-off against the liability, including notional interest, resulting from the valuation by the actuaries and are charged against the Statement of Financial Performance as employee benefits upon valuation.

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions are charged or credited to the Statement of Financial Performance in the period that it occurs. These obligations are valued periodically by independent qualified actuaries.

**(b) Long Service Awards**

Long service awards are provided to employees who achieve certain pre-determined milestones of service within the municipality. The municipality's obligation under these plans is valued by independent qualified actuaries periodically and the corresponding liability is raised. Payments are set-off against the liability, including notional interest, resulting from the valuation by the actuaries and are charged against the Statement of Financial Performance as employee benefits upon valuation. Defined benefit plans are post-employment plans other than defined contribution plans.

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions are charged or credited to the Statement of Financial Performance in the period that it occurs. These obligations are valued periodically by independent qualified actuaries.

**(c) Accrued Leave Pay**

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total amount of leave days due to employees at year end and also on the total remuneration package of the employee.

Accumulating leave is carried forward and can be used in future periods if the current period's entitlement is not used in full. All unused leave will be paid out to the specific employee at the end of that employee's employment term.

Accumulated leave is vesting.

**(d) Accrued Bonuses**

Liabilities for annual bonuses are recognised as they accrue to employees. The liability is based on the portion of the annual bonus due to an employee at year end and also on the total remuneration package of the employee.

**(e) Pension and Retirement Fund Obligations**

The municipality provides retirement benefits for its employees and councillors.

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year they become payable.

Defined benefit plans are post-employment benefit plans other than defined contribution plans. The defined benefit funds, which are administered on a provincial basis, are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on a proportional basis to all participating municipalities. The contributions and lump sum



payments are charged against income in the year they become payable. Sufficient information is not available to use defined benefit accounting for a multi-employer plan. As a result, defined benefit plans have been accounted for as if they were defined contribution plans.

The municipality contributes to both defined benefit plans and defined contribution plans. However, based on the inability of the municipality to obtain the necessary information to comply with the disclosure requirements of a defined benefit plan (refer to note 4.3), all retirement funds are accounted for as defined contribution plans.

**(f) Other Short Term Employee Benefits**

When an employee has rendered service to the entity during a reporting period, the entity recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

**1.13. PROPERTY, PLANT AND EQUIPMENT**

**1.13.1 Initial Recognition**

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are recognised when held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one reporting period. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if it is probable that future economic benefits or service potential associated with the item will flow to the entity, and the cost or fair value of the item can be measured reliably. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the assets acquired are initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

**1.13.2 Subsequent Measurement – Cost Model**

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less any accumulated depreciation and any impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

### 1.13.3 Depreciation and Impairment

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. The annual depreciation rates are based on the following estimated useful lives:

	Years		Years
<b><u>Infrastructure</u></b>		<b><u>Other</u></b>	
Streets and Storm water	10-120	Buildings	100
Electricity	20-50	Office Equipment	4-35
Water	10-55	Furniture and Fittings	1-35
Sewerage and sanitation	10-55	Electrical Equipment	2-14
		Motor Vehicles	5-44
<b><u>Community</u></b>		Mechanical Equipment	4-10
Recreational Facilities	100	Computer equipment	5-12
Cemetery	23-25		
		Landfill Sites	70
<b><u>Finance lease assets</u></b>			
Office equipment	8-9		

Property, plant and equipment are reviewed at each reporting date for any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The impairment charged to the Statement of Financial Performance is the excess of the carrying value over the recoverable amount.

An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of impairment is recognised in the Statement of Financial Performance.

### 1.13.5 De-recognition

Items of property, plant and equipment are derecognised when the asset is disposed or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the net disposal proceeds and the carrying value and is recognised in the Statement of Financial Performance.

### 1.13.6 Land and Buildings and Other Assets – Application of Deemed Cost (Directive 7)

The municipality opted to take advantage of the transitional provisions as contained in Directive 7 of the Accounting Standards Board, issued in December 2009. The municipality applied deemed cost where the acquisition cost of an asset could not be determined. For Land and Buildings the fair value as determined by a valuator was used in order to determine the deemed cost as on 1 July 2007. For Other Assets the depreciated replacement cost method was used to establish the deemed cost as on 1 July 2007.

## **1.14. INTANGIBLE ASSETS**

### **1.14.1 Initial Recognition**

An intangible asset is an identifiable non-monetary asset without physical substance.

An asset meets the identifiable criterion in the definition of an intangible asset when it:

- is separable, i.e. is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or
- arises from contractual rights (including rights arising from binding arrangements) or other legal rights (excluding rights granted by statute), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

The municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:

- the municipality intends to complete the intangible asset for use or sale;
- it is technically feasible to complete the intangible asset;
- the municipality has the resources to complete the project; and
- it is probable that the municipality will receive future economic benefits or service potential.

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, the deemed cost is the carrying amount of the asset(s) given up.

### **1.14.2 Subsequent Measurement – Cost Model**

Intangible assets are subsequently carried at cost less any accumulated amortisation and any accumulated impairments. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test.

### **1.14.3 Amortisation and Impairment**

Amortisation is charged so as to write off the cost or valuation of intangible assets over their estimated useful lives using the straight line method. Amortisation of an asset begins when it is available for use, i.e. when it is in the condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are amortised separately. The estimated useful lives, residual values and amortisation method are reviewed at each year

end, with the effect of any changes in estimate accounted for on a prospective basis. The annual amortisation rates are based on the following estimated useful lives:

<b><u>Intangible Assets</u></b>	<b>Years</b>
Computer Software	5

#### **1.14.4 De-recognition**

Intangible assets are derecognised when the asset is disposed or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the net disposal proceeds and the carrying value and is recognised in the Statement of Financial Performance.

#### **1.14.5 Application of deemed cost (Directive 7)**

The municipality opted to take advantage of the transitional provisions as contained in Directive 7 of the Accounting Standards Board, issued in December 2009. The Municipality applied deemed cost where the acquisition cost of an asset could not be determined. For Intangible Assets the depreciated replacement cost method was used to establish the deemed cost as on 1 July 2007.

### **1.15. INVESTMENT PROPERTY**

#### **1.15.1 Initial Recognition**

Investment property shall be recognised as an asset when, and only when:

- it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the entity, and
- the cost or fair value of the investment property can be measured reliably.

Investment property includes property (land or a building, or part of a building, or both land and buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations. Property with a currently undetermined use is also classified as investment property.

At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition. The cost of self-constructed investment property is measured at cost.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the municipality accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

#### **1.15.2 Subsequent Measurement – Cost Model**

Subsequent to initial recognition, items of investment property are measured at cost less any accumulated depreciation and any accumulated impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life. Buildings are depreciated over 100 years.



**1.15.3 De-recognition**

An investment property shall be derecognised (eliminated from the statement of financial position) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal. The gain or loss arising on the disposal or retirement of an item of investment property is determined as the difference between the net disposal proceeds and the carrying value and is recognised in the Statement of Financial Performance.

**1.15.4 Application of deemed cost - Directive 7**

The municipality opted to take advantage of the transitional provisions as contained in Directive 7 of the Accounting Standards Board, issued in December 2009. The Municipality applied deemed cost where the acquisition cost of an asset could not be determined. The fair value as determined by a valuator was used in order to determine the deemed cost as on 1 July 2007.

**1.16. IMPAIRMENT OF NON-FINANCIAL ASSETS****1.16.1 Cash-generating assets**

Cash-generating assets are assets held with the primary objective of generating a commercial return.

The municipality assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the municipality estimates the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating units (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. Impairment losses are recognised in the Statement of Financial Performance in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the municipality estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Statement of Financial Performance.

**1.16.2 Non-cash-generating assets**

Non-cash-generating assets are assets other than cash-generating assets.

The Municipality assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Municipality estimates the asset's recoverable service amount.

An asset's recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use. If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss recorded in the Statement of Financial Performance.

The value in use of a non-cash-generating asset is the present value of the asset's remaining service potential. The present value of the remaining service potential of the asset is determined using the following approaches:

- *depreciated replacement cost approach* - the present value of the remaining service potential of an asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

The Municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased. If any such indication exists, the Municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for an asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset is increased to its recoverable service amount. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods. Such a reversal of an impairment loss is recognised in the Statement of Financial Performance.

#### **1.17. NON CURRENT INVESTMENTS**

Financial instruments, which include, investments in municipal entities and fixed deposits invested in registered commercial banks, are stated at amortised cost.

Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified.

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

The carrying amounts of such investments are reduced to recognise any decline, other than a temporary decline, in the value of individual investments.

#### **1.18. INVENTORIES**

##### **1.18.1 Initial Recognition**

Inventories comprise current assets held for sale, consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus non-recoverable taxes, transport costs and any other costs in



bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired, unless they are to be distributed at no or nominal charge or consumed in the production process of goods to be distributed at no charge or for a nominal charge.

### **1.18.2 Subsequent Measurement**

Inventories, consisting of consumable stores, raw materials, work-in-progress and finished goods, are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost. Redundant and slow-moving inventories are identified and written down as previously mentioned. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

In general, the basis of allocating cost to inventory items is the weighted average method.

Cost of land held for sale is assigned by using specific identification of their individual costs

### **1.18.3 Inventory recognised as an asset**

Inventories are recognised as assets when the municipality expects to use them during more than one period.

## **1.19 BIOLOGICAL ASSETS**

### **1.19.1 Initial Recognition**

A biological asset or agricultural produce is recognised when, and only when:

- the Municipality controls the asset as a result of past events;
- it is probable that future economic benefits or service potential associated with the asset will flow to the municipality;
- and the fair value or cost of the asset can be measured reliably.

Biological assets are initially measured at their fair value less estimated point-of-sale costs.

### **1.19.2 Subsequent Measurement**

Biological assets are measured at their fair value less estimated point-of-sale costs.

The fair value of game is determined based on market prices of livestock of similar age, breed, and genetic merit in the local industry.

A gain or loss arising on initial recognition of biological assets at fair value less estimated point-of-sale costs is included in profit or loss for the period in which it arises.

## 1.20. FINANCIAL INSTRUMENTS

Financial instruments recognised on the Statement of Financial Position include receivables from exchange transactions, cash and cash equivalents, annuity loans and payables from exchange transactions.

### 1.20.1 *Initial Recognition*

Financial instruments are initially recognised when the municipality becomes a party to the contractual provisions of the instrument at fair value plus, in the case of a financial asset or financial liability not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability

### 1.20.2 *Subsequent Measurement*

Financial Assets are categorised according to their nature as either financial assets at fair value, financial assets at amortised cost or financial assets at cost. Financial Liabilities are categorised as either at fair value, financial liabilities at cost or financial liabilities carried at amortised cost ("other"). The subsequent measurement of financial assets and liabilities depends on this categorisation.

#### 1.20.2.1 Receivables

Receivables are subsequently measured at amortised cost using the effective interest rate method.

For amounts due from debtors carried at amortised cost, the Municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. Objective evidence of impairment includes significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 90 days overdue). If the Municipality determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Financial Performance. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the municipality. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognised in the Statement of Financial Performance.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate, if material. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

#### 1.20.2.2 Payables and Annuity Loans

Financial liabilities consist of payables and annuity loans. They are categorised as financial liabilities held at amortised cost, are initially recognised at fair value and subsequently measured at amortised cost using an effective interest rate, which is the initial carrying amount, less repayments, plus interest.

#### 1.20.2.3 Cash and Cash Equivalents

Cash includes cash on hand (including petty cash) and cash with banks. Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, highly liquid deposits and net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets carried at amortised cost.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are categorised as financial liabilities: other financial liabilities carried at amortised cost.

### 1.20.3 **De-recognition of Financial Instruments**

#### 1.20.3.1 Financial Assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived ; or
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity shall:
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer

The carrying amounts of the transferred asset shall be allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations shall be measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised in accordance with this paragraph shall be recognised in surplus or deficit in the period of the transfer.

When the municipality has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognised to the extent of the municipality's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the municipality's continuing involvement is the amount of the transferred asset that the municipality may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the municipality's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

### 1.20.3.2 *Financial Liabilities*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the Statement of Financial Performance.

### 1.20.4 *Offsetting of Financial Instruments*

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

## 1.21. REVENUE

### 1.21.1 *Revenue from Non-Exchange Transactions*

Revenue from non-exchange transactions refers to transactions where the municipality received revenue without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportionate basis as an exchange transaction.

Fine revenue constitutes both spot fines and summonses. Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset

Revenue from public contributions and donations is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment qualifies for recognition and first becomes available for use by the municipality. Where public contributions have been received but the municipality has not met the related conditions, it is recognised as an unspent public contribution (liability).

Revenue from third parties i.e. insurance payments for assets impaired, are recognised when it can be measured reliably and is not being offset against the related expenses of repairs or renewals of the impaired assets.

Contributed property, plant and equipment is recognised when such items of property, plant and equipment qualifies for recognition and become available for use by the municipality.

Unidentified deposits are initially recognised as a payable. When any such deposits are claimed, the deposit is transferred to the specific consumers account or other appropriate account. Deposits made in error are refunded when the source of the transaction becomes known.

After a period of twelve months all unidentified deposits into the municipality's bank account will be treated as revenue as historical patterns have indicated that minimal unidentified deposits are reclaimed after a period of twelve months. This assessment is performed annually at 30 June. Therefore the substance of these transactions indicate that even though



the prescription period for unclaimed monies is legally three years, it is reasonable to recognise all unclaimed monies older than twelve months as revenue.

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No. 56 of 2003) and is recognised when the recovery thereof is virtually certain.

Revenue is measured at the fair value of the consideration received or receivable.

When, as a result of a non-exchange transaction, a municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the present obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability will be recognised as revenue.

### **1.21.2 Revenue from Exchange Transactions**

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered/ goods sold, the value of which approximates the consideration received or receivable.

Service charges relating to electricity and water are based on consumption and a basic charge as per Council resolution. The majority of meters are read on a monthly basis and are recognised as revenue when invoiced. In exceptional instances, provisional estimates of consumption are made when meter readings have not been performed (due to the inability of the municipality to access the specific meter). The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period.

Revenue from the sale of electricity prepaid meter cards is recognised at the point of sale. An adjustment is made at year-end for unused units.

Service charges relating to refuse removal are recognised on an annual basis in advance by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage.

Service charges from sanitation (sewerage) are recognised on an annual basis in advance by applying the approved tariff to each property that has improvements.

Interest revenue is recognised using the effective interest rate method.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant tariff. This includes the issuing of licences and permits.

Revenue from the sale of goods is recognised when substantially all the risks and rewards in those goods are passed to the consumer and the following conditions are met -

- the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor
- effective control over the goods sold;
- the amount of revenue can be measured reliably;

- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity;
- and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue arising out of situations where the municipality acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the municipality as compensation for executing the agreed services.

The amount of revenue arising on a transaction is usually determined by agreement between the entity and the purchaser or user of the asset or service. It is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the entity.

In most cases, the consideration is in the form of cash or cash equivalents and the amount of revenue is the amount of cash or cash equivalents received or receivable. However, when the inflow of cash or cash equivalents is deferred, the fair value of the consideration may be less than the nominal amount of cash received or receivable. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The imputed rate of interest is the more clearly determinable of either:

- The prevailing rate for a similar instrument of an issuer with a similar credit rating; or
- A rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.

The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue.

When goods or services are exchanged or swapped for goods or services which are of a similar nature and value, the exchange is not regarded as a transaction that generates revenue. When goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction that generates revenue. The revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset. A corresponding liability is raised to the extent that the grant, transfer or donation is conditional. The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognised as revenue when the asset is recognised.

Accounting Policy 1.9 describes the conditions under which revenue will be recognised by management derived from Government Grants and Receipts.



Accounting Policy 1.10 describes the conditions under which revenue will be recognised by management derived from Public Contributions.

## 1.22. RELATED PARTIES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

### ***(a) Related parties include:***

- Entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the reporting entity;
- Individuals owning, directly or indirectly, an interest in the reporting entity that gives them significant influence over the entity, and close members of the family of any such individual;
- Key management personnel, and close members of the family of key management personnel; and
- Entities in which a substantial ownership interest is held, directly or indirectly, by any person described in the 2<sup>nd</sup> and 3<sup>rd</sup> bullet, or over which such a person is able to exercise significant influence.

### ***(b) Key management personnel include:***

- All directors or members of the governing body of the entity, being the Executive Mayor, Deputy Mayor, Speaker and members of the Mayoral Committee.
- Other persons having the authority and responsibility for planning, directing and controlling the activities of the reporting entity being the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

## 1.23. UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted or is expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state, or is expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No. 56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance. It is measured according to the requirements of the Municipal Finance Management Act (Act No. 56 of 2003).

## 1.24. IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No. 56 of 2003), the Municipal Systems Act (Act No. 32 of 2000), the Public Office Bearers Act, and (Act. No. 20 of 1998) or is in contravention of the municipality's Supply Chain Management Policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

It is measured according to the requirements of the Municipal Finance Management Act (Act No. 56 of 2003).

## 1.25. FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and could have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is

accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance. It is measured according to the requirements of the Municipal Finance Management Act (Act No. 56 of 2003).

## 1.26. CONTINGENT LIABILITIES

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. A contingent liability could also be a present obligation that arises from past events, but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to the obligation or the amount of the obligation cannot be measured with sufficient reliability.

Management judgement is required when recognising and measuring contingent liabilities.

## 1.27. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In the process of applying the municipality's accounting policy, management has made the following significant accounting judgements, estimates and assumptions, which have the most significant effect on the amounts recognised in the financial statements:

### *Impairment of Receivables*

The calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness.

### *Property, Plant and Equipment*

The useful lives of property, plant and equipment are based on management's estimation. Infrastructure's useful lives are based on technical estimates of the practical useful lives for the different infrastructure types, given engineering technical knowledge of the infrastructure types and service requirements. For other assets and buildings management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

For deemed cost applied to other assets as per adoption of Directive 7, management used the depreciated replacement cost method which was based on assumptions about the remaining duration of the assets.

For deemed cost applied to land and buildings as per adoption of Directive 7, management made use of an independent valuator. The valuator's valuation was based on assumptions about the market's buying and selling trends and the remaining duration of the assets.

Management referred to the following when making assumptions regarding useful lives, deemed cost and residual values of property plant and equipment.

- Active selling prices in the market to determine residual values and deemed cost of movable assets.
- The useful life of movable assets was determined using the age of similar assets available for sale in the active market.
- Local Government Industry Guides was used to assist with the deemed cost and useful life of infrastructure assets.
- Municipal Valuations were used to determine the cost of land and buildings

- The municipality referred to buildings in other municipal areas to determine the useful life of buildings. The municipality also consulted with engineers to support the useful life of buildings, with specific reference to the structural design of buildings.

### ***Provisions and Contingent liabilities***

Management judgement is required when recognising and measuring provisions and when measuring contingent liabilities. Provisions are discounted where the time value effect is material.

Management referred to the following when making assumptions regarding provisions:

- Interest rates (investment rate) linked to prime was used to calculate the effect of time value of money.

### ***Revenue Recognition***

Accounting Policy 1.22.1 on Revenue from Non-Exchange Transactions and Accounting Policy 1.22.2 on Revenue from Exchange Transactions describes the conditions under which revenue will be recognised by management of the municipality.

In making their judgement, management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GRAP 23: Revenue from Non-Exchange Transactions.). Specifically, whether the municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services are rendered, whether the service has been performed. The management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

### ***Provision for Performance bonuses***

The provision for performance bonuses represents the best estimate of the obligation at year end and is based on historic patterns of payment of performance bonuses. Performance bonuses are subject to an evaluation by council.

### ***Provision for Staff leave***

Staff leave is accrued to employees according to collective agreements. Provision is made for the full cost of accrued leave at reporting date. This provision will be realised as employees take leave. There is no possibility of reimbursement.

### ***Componentisation of infrastructure assets***

All infrastructure assets are unbundled into their significant components in order to depreciate all major components over the expected useful lives. The cost of each component is estimated based on the current market price of each component, depreciated for age and condition and recalculated to cost at the acquisition date if known or to the date of initially adopting the standards of GRAP.

## **1.28. TAXES – VALUE ADDED TAX**

Revenue, expenses and assets are recognised net of the amounts of value added tax. The net amount of Value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

## **1.29. CAPITAL COMMITMENTS**

Capital commitments disclosed in the financial statements represents the balance committed to capital projects on reporting date that will be incurred in the period subsequent to the specific reporting date.

### **1.30. AMENDED DISCLOSURE POLICY**

Amendments to accounting policies are reported as and when deemed necessary based on the relevance of any such amendment to the format and presentation of the financial statements. The principal amendments to matters disclosed in the current financial statements include fundamental errors, and the treatment of assets financed by external grants.

DRAFT

		2011 R	2010 R
<b>2</b>	<b>LONG-TERM LIABILITIES</b>		
	Capitalised Lease Liability - At amortised cost	350 234	-
		<b>350 234</b>	<b>-</b>
	Current Portion transferred to Current Liabilities	47 433	-
	Capitalised Lease Liability - At amortised cost	47 433	-
	<b>Total Long-term Liabilities - At amortised cost using the effective interest rate method</b>	<b>302 801</b>	<b>-</b>
	Refer below for maturity dates of long term liabilities:		
	The obligations under finance leases are scheduled below:		
			<b>Minimum lease payments</b>
	Amounts payable under finance leases:		
	Payable within one year	90 220	-
	Payable within two to five years	371 608	-
	Payable after five years	-	-
		461 828	-
	<b>Less: Future finance obligations</b>	111 594	-
	<b>Present value of lease obligations</b>	<b>350 234</b>	<b>-</b>
	Leases are secured by property, plant and equipment - Note 9		
		<b>2011 R</b>	<b>2010 R</b>
<b>3</b>	<b>EMPLOYEE BENEFITS</b>		
	Post Retirement Benefits	19 520	19 520
	<b>Total Non-current Employee Benefit Liabilities</b>	<b>19 520</b>	<b>19 520</b>
<b>3.1</b>	<b>Retirement funds</b>		
	<b>Retirement funds</b>		
	<p>The Municipality requested detailed employee and pensioner information as well as information on the Municipality's share of the Pension and Retirement Funds' assets from the fund administrator. The fund administrator confirmed that assets of the Pension and Retirement Funds are not split per participating employer. Therefore, the Municipality is unable to determine the value of the plan assets as defined in GRAP 25.</p> <p>As part of the Municipality's process to value the defined benefit liabilities, the Municipality requested pensioner data from the fund administrator. The fund administrator claim that the pensioner data to be confidential and were not willing to share the information with the Municipality. Without detailed pensioner data the Municipality was unable to calculate a reliable estimate of the accrued liability in respect of pensioners who qualify for a defined benefit pension.</p> <p>Therefore, although both the Cape Joint Pension Fund and Cape Joint Retirement Fund are defined as defined benefit plans, it will be accounted for as defined contribution plans.</p>		
	<b><u>CAPE JOINT PENSION FUND</u></b>		
	<p>The contribution rate payable is 9% by members and 18% by Council. The last actuarial valuation performed for the year ended 30 June 2010 revealed that the fund is in an sound financial position with a funding level of 100% (30 June 2009 - 100%). Actuarial valuations also determined that there were a shortfall in the investment return for the 30 June 2010 financial year.</p>		

**CAPE RETIREMENT FUND**

The contribution rate payable is 9% by members and 18% by Council. The last actuarial valuation performed for the year ended 30 June 2010 revealed that the fund is in a sound financial position with a funding level of 100.3% (30 June 2009 - 103.3%).

**DEFINED CONTRIBUTION FUNDS**

Council contribute to the Government Employees Pension Fund, Municipal Council Pension Fund, IMATU Retirement Fund and SAMWU National Provident Fund which are defined contribution funds. The retirement benefit fund is subject to the Pension Fund Act, 1956, with pension being calculated on the pensionable remuneration paid. Current contributions by Council are charged against expenditure on the basis of current service costs.

		2010 R	2009 R
4	<b>CONSUMER DEPOSITS</b>		
	Electricity and Water	340 885	385 099
	<b>Total Consumer Deposits</b>	<b>340 885</b>	<b>385 099</b>
	<b>Guarantees held in lieu of Electricity and Water Deposits</b>	<b>-</b>	<b>-</b>
	The fair value of consumer deposits approximate their carrying value. Interest is not paid on these amounts.		
5	<b>CURRENT EMPLOYEE BENEFITS</b>		
	Staff Leave	1 126 260	613 657
	Bonuses	529 492	378 912
	<b>Total Current Employee Benefits</b>	<b>1 655 751</b>	<b>992 570</b>
	The movement in current employee benefits are reconciled as follows:		
	<b><u>Staff Leave</u></b>		
	Balance at beginning of year	613 657	613 657
	Contribution to current portion	512 602	-
	Balance at end of year	<b>1 126 260</b>	<b>613 657</b>
	Staff leave accrued to employees according to collective agreement. Provision is made for the full cost of accrued leave at reporting date. This provision will be realised as employees take leave. There is no possibility of reimbursement.		
	<b><u>Bonuses</u></b>		
	Balance at beginning of year	378 912	378 912
	Contribution to current portion	150 579	-
	Balance at end of year	<b>529 492</b>	<b>378 912</b>
	Bonuses are being paid to all municipal staff, including section 57 Managers. Section 57 Managers are entitled to a 13th cheque in terms of their appointment contract. The balance at year end represent to portion of the bonus that have already vested for the current salary cycle. There is no possibility of reimbursement.		



6	PAYABLES FROM EXCHANGE TRANSACTIONS	2011 R	2010 R
	Trade Payables	6 927 492	3 172 015
	Sundry Creditors	40	40
	Sundry Deposits	3 944	3 402
	Department of Safety - Agency services	371 578	371 578
	Suspense accounts in credit	1 113 206	51 220
	<b>Total Trade Payables</b>	<b>8 416 259</b>	<b>3 598 256</b>
	Payables are being recognised net of any discounts.		
	Payables are being paid within 30 days as prescribed by the MFMA. This credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation. Discounting of trade and other payables on initial recognition is not deemed necessary		
	The carrying value of trade and other payables approximates its fair value.		
	Sundry deposits include hall, builders and housing Deposits.		
7	UNSPENT CONDITIONAL GOVERNMENT GRANTS AND RECEIPTS		
	<b>Unspent Grants</b>	1 655 323	2 917 968
	National Government Grants	735 457	2 867 821
	Provincial Government Grants	870 318	-
	Other Grant Providers	49 547	50 147
	<b>Total Conditional Grants and Receipts</b>	<b>1 655 323</b>	<b>2 917 968</b>
	Reconciliation of total grants and receipts		
	Balance previously reported		2 917 968
	Correction of error - Refer to note 29.1		508 561
			3 426 529
	See appendix "C" for reconciliation of grants from other spheres of government. The municipality complied with the conditions attached to all grants received to the extent of revenue recognised. No grants were withheld.		
8	TAXES		
8.1	VAT PAYABLE		
	VAT Payable	(1 178 412)	-
	VAT output in suspense	2 051 642	1 556 346
	<b>Total Vat payable</b>	<b>873 231</b>	<b>1 556 346</b>
8.2	VAT RECEIVABLE		
	VAT Receivable	-	853 102
	VAT input in suspense	285 297	258 921
	<b>Total VAT receivable</b>	<b>285 297</b>	<b>1 112 024</b>
8.3	NET VAT RECEIVABLE/(PAYABLE)	(587 934)	(444 323)
	VAT is receivable/payable on the cash basis.		

**ANNUAL REPORT 2010 – 2011 -MUNICIPALITY SIYATHEMBA MUNISIPALITEIT**

<b>9</b>	<b>PROPERTY, PLANT AND EQUIPMENT</b>											
	<b>30 JUNE 2011</b>											
	<b>Reconciliation of Carrying Value</b>			<b>Cost</b>				<b>Accumulated Depreciation</b>			<b>Carrying Value</b>	
		<b>Opening Balance</b>	<b>Correction of error</b>	<b>Additions</b>	<b>WIP</b>	<b>Closing Balance</b>	<b>Opening Balance</b>	<b>Correction of error</b>	<b>Additions</b>	<b>Disposals</b>	<b>Closing Balance</b>	
		<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>
	<b>Land and Buildings</b>	33 700 300	-	-	-	33 700 300	598 260		199 420	-	797 680	32 902 620
	Land	13 758 300		-	-	13 758 300	-		-	-	-	13 758 300
	Buildings	19 942 000		-	-	19 942 000	598 260		199 420	-	797 680	19 144 320
	<b>Infrastructure</b>	241 251 295	-	-	12 122 011	253 373 306	25 578 093		8 646 227	-	34 224 319	219 148 986
	Main: Roads	107 683 400		-	4 958 026	112 641 426	15 955 001		5 318 334	-	21 273 335	91 368 091
	Main: Electricity	18 338 811		-	-	18 338 811	1 117 782		387 219	-	1 505 001	16 833 810
	Main: Waste Water Management	51 404 321		-	-	51 404 321	3 451 068		1 193 791	-	4 644 858	46 759 463
	Main: Water	63 824 762		-	7 163 985	70 988 747	5 054 242		1 746 884	-	6 801 126	64 187 622
										-		
	<b>Other Assets</b>	3 789 707	-	378 834	-	4 168 540	1 378 419		459 473	-	1 837 892	2 330 648
	Motor Vehicles	2 503 322		-	-	2 503 322	929 150		309 717	-	1 238 866	1 264 456
	Plant & Equipment	13 683		-	-	13 683	5 086		1 695	-	6 782	6 902
	Office Equipment	134 372		378 834	-	513 206	43 824		14 608	-	58 432	454 775
	Furniture & Fittings	524 258		-	-	524 258	210 921		70 307	-	281 228	243 030
	Tools & Equipment	146 076		-	-	146 076	51 259		17 086	-	68 346	77 730
	Computer Equipment	426 519		-	-	426 519	122 960		40 987		163 947	262 571
	Computer Software	-		-	-	-	-		-		-	-
	Fencing	-		-	-	-	-		-		-	-
	Inventory items	41 476		-	-	41 476	15 219		5 073		20 291	21 185
		278 741 301	-	378 834	12 122 011	291 242 146	27 554 772		9 305 120	-	36 859 891	254 382 255

**ANNUAL REPORT 2010 – 2011 -MUNICIPALITY SIYATHEMBA MUNISIPALITEIT**

30 JUNE 2010											
Reconciliation of Carrying Value	Cost					Accumulated Depreciation					Carrying Value
	Opening Balance R	Correction of error R	Additions R	WIP R	Closing Balance R	Opening Balance R	Correction of error R	Additions R	Disposals R	Closing Balance R	
<b>Land and Buildings</b>	18 972 100	14 728 200	-	-	33 700 300	-	398 840	199 420	-	598 260	33 102 040
Land	18 972 100	-5 213 800	-	-	13 758 300	-	-	-	-	-	13 758 300
Buildings	-	19 942 000	-	-	19 942 000	-	398 840	199 420	-	598 260	19 343 740
Buildings	-	-	-	-	-	-	-	-	-	-	-
<b>Infrastructure</b>	127 547 419	98 114 228	-	15 589 647	241 251 295	7 530 321	9 401 545	8 646 227	-	25 578 093	215 673 202
Main: Roads	34 521 548	60 037 990	-	13 123 863	107 683 400	3 164 411	7 472 256	5 318 334	-	15 955 001	91 728 399
Main: Electricity	15 103 785	769 242	-	2 465 784	18 338 811	982 691	-252 128	387 219	-	1 117 782	17 221 029
Main: Waste Management	27 458	-27 458	-	-	-	999	-999	-	-	-	-
Main: Waste Water Management	38 735 880	12 668 441	-	-	51 404 321	1 374 669	882 608	1 193 791	-	3 451 068	47 953 253
Main: Water	18 528 100	45 296 663	-	-	63 824 762	667 383	2 639 975	1 746 884	-	5 054 242	58 770 520
Reservoirs/Pumps - Waste Management	-	-	-	-	-	-	-	-	-	-	-
Transformers, Switchgear and Meters	3 018 258	-3 018 258	-	-	-	168 586	-168 586	-	-	-	-
Reservoirs/Tanks - Water	17 612 391	-17 612 391	-	-	-	1 171 580	-1 171 580	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-
<b>Community Assets</b>	3 326 510	-3 326 510	-	-	-	314 295	-314 295	-	-	-	-
Recreation Grounds	2 573 253	-2 573 253	-	-	-	171 975	-171 975	-	-	-	-
Cemetries	9 153	-9 153	-	-	-	333	-333	-	-	-	-
Civil Buildings	-	-	-	-	-	-	-	-	-	-	-
Libraries	-	-	-	-	-	-	-	-	-	-	-
Parks & Gardens	-	-	-	-	-	-	-	-	-	-	-
Public Conveniences/Bathhouses	-	-	-	-	-	-	-	-	-	-	-
Land Strip	744 104	-744 104	-	-	-	141 987	-141 987	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-
<b>Other Assets</b>	6 890 301	-3 162 941	62 347	-	3 789 707	1 272 591	-353 645	459 473	-	1 378 419	2 411 288
Motor Vehicles	1 448 844	1 054 478	-	-	2 503 322	413 448	205 985	309 717	-	929 150	1 574 172
Plant & Equipment	3 331 342	-3 317 658	-	-	13 683	423 050	-419 660	1 695	-	5 086	8 597
Office Equipment	294 437	-160 064	-	-	134 372	118 467	-89 251	14 608	-	43 824	90 549
Furniture & Fittings	444 248	80 010	-	-	524 258	130 257	10 357	70 307	-	210 921	313 337
Tools & Equipment	-	146 076	-	-	146 076	-	34 173	17 086	-	51 259	94 816
Computer Equipment	314 487	49 684	62 347	-	426 519	101 184	-19 211	40 987	-	122 960	303 558
Computer Software	19 645	-19 645	-	-	-	3 141	-3 141	-	-	-	-
Fencing	1 037 298	-1 037 298	-	-	-	83 043	-83 043	-	-	-	-
Inventory items	-	41 476	-	-	41 476	-	10 146	5 073	-	15 219	26 258
	-	-	-	-	-	-	-	-	-	-	-
	156 736 329	106 352 978	62 347	15 589 647	278 741 301	9 117 206	9 132 446	9 305 120	-	27 554 772	251 186 530

**ANNUAL REPORT 2010 – 2011 -MUNICIPALITY SIYATHEMBA MUNISIPALITEIT**

[illegible]

ANNUAL REPORT 2010 – 2011 -MUNICIPALITY SIYATHEMBA MUNISIPALITEIT

		2011	2010
9	<b>Assets pledged as security:</b>		
	Office equipment @ Cost	378 834	-
		<b>2011</b>	<b>2010</b>
		<b>R</b>	<b>R</b>
10	<b>LONG-TERM RECEIVABLES</b>		
	Staff Housing Loans - At amortised cost	114 955	126 142
	Consumable debtors	-	-
	Balance previously reported		374 507
	Reversal of Long-term Receivables reclassified without sufficient supporting documents - Refer notes 12 and 29		(374 507)
		114 955	126 142
	<b>Less:</b> Current portion transferred to current receivables	(13 115)	(11 187)
	Officials Housing Loans - At amortised cost	(13 115)	(11 187)
		101 840	114 955
	<b>Less:</b> Provision for Impairment	-	-
	<b>Total Long Term Receivables</b>	<b>101 840</b>	<b>114 955</b>
	<b>HOUSING LOANS</b>		
	Housing loans are not granted to officials of the municipality. The outstanding amount relates to prior years and is still collectable. Staff were entitled to housing loans which attract interest at 16% per annum and which are repayable over a maximum period of 20 years. These loans are repayable up to the year 2020.		
11	<b>INVENTORY</b>		
	Inventory @ Cost	211 465	150 822
	<b>Total Inventory</b>	<b>211 465</b>	<b>150 822</b>
	Consumable stores materials written down due to losses as identified during the annual stores counts.	-	-
	Consumable stores materials surplusses identified during the annual stores counts.	-	-
	Inventory recognised as an expense during the year	60 642	161 308

# ANNUAL REPORT 2010 – 2011 -MUNICIPALITY SIYATHEMBA MUNISIPALITEIT

<b>12</b>	<b>RECEIVABLES FROM EXCHANGE TRANSACTIONS</b>		
Electricity	944 463	694 606	
Water	8 740 596	5 576 536	
Rental	21 467	15 935	
Refuse	1 337 645	1 048 601	
Sewerage	5 884 436	4 550 985	
Corrections done on opening balances	-	191 734	
Other Consumer debtors	1 988 381	825 279	
Sundry Receivables	401 356	759 856	
Balance previously reported		385 349	
Reversal of Long-term Receivables previously reclassified without sufficient supporting documents - Refer notes 10 and 29		374 507	
Other deposits	23 341	25 414	
<b>Total Receivables from Exchange Transactions</b>	<b>19 341 685</b>	<b>13 688 946</b>	
Less: Allowance for Doubtful Debts	(17 516 489)	(12 027 164)	
<b>Total Net Receivables from Exchange Transactions</b>	<b>1 825 196</b>	<b>1 661 781</b>	
Consumer debtors are payable within 30 days. This credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation. Discounting of trade and other receivables on initial recognition is not deemed necessary. The outstanding consumer accounts are secured by the consumer deposits paid only.			
Ageing of Receivables from Exchange Transactions:			
<b><u>(Electricity): Ageing</u></b>			
Current (0 - 30 days)	722 457	560 771	
31 - 60 Days	72 655	66 341	
61 - 90 Days	44 983	12 661	
+ 90 Days	104 368	54 833	
<b>Total</b>	<b>944 463</b>	<b>694 606</b>	
<b><u>(Water): Ageing</u></b>			
Current (0 - 30 days)	272 513	290 584	
31 - 60 Days	169 982	151 909	
61 - 90 Days	162 156	145 760	
+ 90 Days	8 135 946	4 988 283	
<b>Total</b>	<b>8 740 596</b>	<b>5 576 536</b>	
<b><u>(Refuse): Ageing</u></b>			
Current (0 - 30 days)	79 732	76 281	
31 - 60 Days	43 394	35 709	
61 - 90 Days	34 633	29 931	
+ 90 Days	1 179 886	906 680	
<b>Total</b>	<b>1 337 645</b>	<b>1 048 601</b>	
<b><u>(Sewerage): Ageing</u></b>			
Current (0 - 30 days)	264 291	247 046	
31 - 60 Days	160 321	126 355	
61 - 90 Days	139 609	118 800	
+ 90 Days	5 320 214	4 250 518	
<b>Total</b>	<b>5 884 436</b>	<b>4 742 719</b>	
<b><u>(Rental): Ageing</u></b>			
Current (0 - 30 days)	4 048	4 512	
31 - 60 Days	714	582	
61 - 90 Days	476	450	
+ 90 Days	16 230	10 391	
<b>Total</b>	<b>21 467</b>	<b>15 935</b>	
<b><u>(Other): Ageing</u></b>			
Current (0 - 30 days)	59 903	21 525	
31 - 60 Days	54 070	8 282	
61 - 90 Days	75 518	7 783	
+ 90 Days	2 200 246	1 547 546	
<b>Total</b>	<b>2 389 737</b>	<b>1 585 135</b>	
<b><u>(Total): Ageing</u></b>			
Current (0 - 30 days)	1 402 945	1 200 719	
31 - 60 Days	501 135	389 178	
61 - 90 Days	457 375	315 385	
+ 90 Days	16 956 889	11 758 250	
<b>Total</b>	<b>19 318 344</b>	<b>13 663 531</b>	
<b>Reconciliation of Provision for Bad Debts</b>			
Balance at beginning of year	12 027 164	8 021 500	



**ANNUAL REPORT 2010 – 2011 -MUNICIPALITY SIYATHEMBA MUNISIPALITEIT**

Electricity	452 575	395 995
Water	5 520 364	3 454 865
Rental	-	-
Refuse	1 005 740	835 612
Sewerage	4 432 918	3 156 254
Other Consumer debtors	615 568	178 774
Contribution to provision/(Reversal of provision)	5 489 325	4 005 664
Electricity	370 757	56 580
Water	3 201 604	2 065 499
Rental	-	-
Refuse	290 351	170 128
Sewerage	1 322 072	1 276 664
Other Consumer debtors	304 540	436 794
Balance at end of year	17 516 489	12 027 164
Electricity	823 332	452 575
Water	8 721 968	5 520 364
Rental	-	-
Refuse	1 296 091	1 005 740
Sewerage	5 754 990	4 432 918
Other Consumer debtors	920 108	615 568
<b>Closing balance at end of year</b>	<b>17 516 489</b>	<b>12 027 164</b>
Concentrations of credit risk with respect to trade receivables are limited due to the municipality's large number of customers. The municipality's historical experience in collection of trade receivables falls within recorded allowances. Due to these factors, management believes that no additional risk beyond amounts provided for collection losses is inherent in the municipality's trade receivables.		

**ANNUAL REPORT 2010 – 2011 -MUNICIPALITY SIYATHEMBA MUNISIPALITEIT**

<b>13</b>	<b>RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS</b>		
		<b>2011</b>	<b>2010</b>
		<b>R</b>	<b>R</b>
	Rates	8 033 045	7 251 117
	Corrections done on opening balances	-	(199 407)
	Other Receivables	890 300	4 322 262
	Pixley Ka Seme District Municipality - Balance previously reported	9 067	2 655 545
	Restatement of monies due from the District municipality - Refer note 7		508 561
	Other debtors	869 285	873 151
	Suspense accounts in debit	11 948	285 005
	<b>Total Receivables from Non-Exchange Transactions</b>	<b>8 923 344</b>	<b>11 373 973</b>
	Less: Allowance for Doubtful Debts	(7 963 590)	(6 845 999)
	<b>Total Net Receivables from Non-Exchange Transactions</b>	<b>959 755</b>	<b>4 527 974</b>
	Ageing of Receivables from Non-Exchange Transactions:		
	<i>(Rates): Ageing</i>		
	Current (0 - 30 days)	326 590	157 973
	31 - 60 Days	163 020	118 017
	61 - 90 Days	153 944	113 062
	+ 90 Days	7 575 367	6 662 659
	<b>Total</b>	<b>8 218 921</b>	<b>7 051 710</b>
	<b>Reconciliation of Provision for Bad Debts</b>		
	Balance at beginning of year - Rates	6 845 999	5 720 813
	Contribution to provision/(Reversal of provision) - Rates	1 117 591	1 125 186
	<b>Balance at end of year</b>	<b>7 963 590</b>	<b>6 845 999</b>
	Concentrations of credit risk with respect to trade receivables are limited due to the municipality's large number of customers. The municipality's historical experience in collection of trade receivables falls within recorded allowances. Due to these factors, management believes that no additional risk beyond amounts provided for collection losses is inherent in the municipality's trade receivables.		
<b>14</b>	<b>OPERATING LEASE ARRANGEMENTS</b>		
<b>14.1</b>	<b>The Municipality as Lessor (Asset)</b>		
	Balance on 1 July	10 670	14 042
	Movement during the year	(2 178)	(3 372)
	<b>Balance on 30 June</b>	<b>8 492</b>	<b>10 670</b>
	At the Statement of Financial Position date, where the municipality acts as a lessor under operating leases, it will receive operating lease income as follows:		
	Up to 1 Year	31 486	53 066
	1 to 5 Years	42 580	74 066
	More than 5 Years	-	-
	<b>Total Operating Lease Arrangements</b>	<b>74 066</b>	<b>127 133</b>
	This lease income was determined from contracts that have a specific conditional income and does not include lease income which has a undetermined conditional income.		
	The leases are in respect of land and buildings being leased out for pervious ranging until 2015.		

15	<b>CASH AND CASH EQUIVALENTS</b>		
	<b>Assets</b>		
	Call Investments Deposits	754 587	2 060
	Bank Accounts	-	-
	<b>Total Cash and Cash Equivalents - Assets</b>	<b>754 587</b>	<b>2 060</b>
	<b>Liabilities</b>		
	Primary Bank Account	578 986	553 417
	Correction done on opening balance	-	18 546
	<b>Total Cash and Cash Equivalents - Liabilities</b>	<b>578 986</b>	<b>571 962</b>
	Cash and cash equivalents comprise cash held and short term deposits. The carrying amount of these assets approximates their fair value.		
	Bank overdraft facility of R750 000 exists at ABSA.		
	The municipality has the following bank accounts:		
	<b>Current Accounts</b>		
	Prieska ABSA - Account Number 40-5355-2997 (Primary Bank Account):	(578 986)	(571 962)
		<b>(578 986)</b>	<b>(571 962)</b>
	<b>Prieska ABSA - Account Number 40-5355-2997 (Primary Bank Account):</b>		
	Cash book balance at beginning of year	(571 962)	968 704
	Cash book balance at end of year	(578 986)	(571 962)
	Bank statement balance at beginning of year	(568 012)	954 327
	Bank statement balance at end of year	(477 645)	(568 012)
		<b>2011</b>	<b>2010</b>
		<b>R</b>	<b>R</b>
16	<b>PROPERTY RATES</b>		
	<b>Actual</b>		
	<b>Rateable Land and Buildings</b>	6 246 033	5 447 200
	Residential, Commercial Property, State Farms	5 729 124	5 447 200
		516 909	-
	Less: Rebates	(1 376 344)	(771 422)
	<b>Total Assessment Rates</b>	<b>4 869 689</b>	<b>4 675 778</b>

# ANNUAL REPORT 2010 – 2011 -MUNICIPALITY SIYATHEMBA MUNISIPALITEIT

		2011 R	2010 R
	Valuations on land and buildings are performed every four years. The last valuation came into effect on 1 July 2009.		
	<b>Rates:</b>		
	Residential	0.02066	0.01953
	Commercial	0.02667	0.02542
	Agricultural	0.00045	0.00489
	Rates are levied annually and monthly. Monthly rates are payable by the 7th of the following month and annual rates are payable before 30 September. Interest is levied at the prime rate plus 1% on outstanding monthly rates.		
	Rebates can be defined as any income that the Municipality is entitled by law to levy, but which has subsequently been forgone by way of rebate or remission.		
<b>17</b>	<b>GOVERNMENT GRANTS AND SUBSIDIES</b>		
	<b>Unconditional Grants</b>	<b>15 440 466</b>	<b>12 345 966</b>
	Equitable Share	15 440 466	12 345 966
	<b>Conditional Grants</b>	<b>16 643 148</b>	<b>21 123 193</b>
	Grants and donations	16 643 148	21 123 193
	<b>Total Government Grants and Subsidies</b>	<b>32 083 614</b>	<b>33 469 159</b>
	Government Grants and Subsidies - Capital	18 264 539	17 743 445
	Government Grants and Subsidies - Operating	13 819 075	15 725 715
		<b>32 083 614</b>	<b>33 469 160</b>
	The municipality does not expect any significant changes to the level of grants.		
<b>17.1</b>	<b>Equitable share</b>		
	Opening balance	-	-
	Grants received	15 440 466	12 345 966
	Conditions met - Operating	(15 440 466)	(12 345 966)
	Conditions met - Capital	-	-
	Conditions still to be met	-	-
	The Equitable Share is the unconditional share of the revenue raised nationally and is being allocated in terms of Section 214 of the Constitution (Act 108 of 1996) to the municipality by the National Treasury.		
<b>17.2</b>	<b>Local Government Financial Management Grant (FMG)</b>		
	Opening balance	-	136 043
	Grants received	1 200 000	750 000
	Conditions met - Operating	(1 200 000)	(886 043)
	Conditions met - Capital	-	-
	Conditions still to be met	-	-
	The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial reforms required by the Municipal Finance Management Act (MFMA), 2003. The FMG Grant also pays for the cost of the Financial Management Internship Programme (e.g. salary costs of the Financial Management Interns).		
<b>17.3</b>	<b>Municipal Systems Improvement Grant</b>		
	Opening balance	-	-
	Grants received	750 000	850 000
	Conditions met - Operating	(750 000)	(850 000)
	Conditions met - Capital	-	-
	Conditions still to be met	-	-
	The MSIG was used for building in-house capacity to perform municipal functions and stabilise institutional and governance systems.		
<b>17.4</b>	<b>Municipal Infrastructure Grant (MIG)</b>		
	Opening balance	3 376 382	1 879 276
	Correction of error	-	508 561
	Grants received	5 526 000	7 674 000
	Conditions met - Operating	-	-
	Conditions met - Capital	(8 166 925)	(6 685 455)
	Grant expenditure to be recovered	735 457	3 376 382
	The grant was used to upgrade infrastructure in previously disadvantaged areas.		
<b>17.5</b>	<b>Housing Grants</b>		
	Opening balance	-	-
	Grants received	519 104	410 826
	Conditions met - Operating	(519 104)	(410 826)
	Conditions met - Capital	-	-
	Grant expenditure to be recovered	-	-

**ANNUAL REPORT 2010 – 2011 -MUNICIPALITY SIYATHEMBA MUNISIPALITEIT**

	Housing grants was utilised for the development of erven and the erection of top structures.		
<b>17.6</b>	<b>Other Grants</b>		
	Opening balance	50 147	617 225
	Grants received	6 532 800	10 904 009
	Conditions met - Operating	(360 000)	(413 096)
	Conditions met - Capital	(5 652 150)	(11 057 990)
	Conditions still to be met	570 797	50 147
	Various grants were received from other spheres of government (e.g. Library fund and Skills Development Grant)		
<b>17.7</b>	<b>Total Grants</b>		
	Opening balance	3 426 529	3 141 105
	Grants received	30 018 370	32 934 801
	Conditions met - Operating	(18 319 570)	(14 905 931)
	Conditions met - Capital	(13 819 075)	(17 743 445)
	Write off - Irrecoverable grant expenditure		-
	Conditions still to be met/(Grant expenditure to be recovered)	1 306 254	3 426 529
	<u>Disclosed as follows:</u>		
	Unspent Conditional Government Grants and Receipts	1 655 323	3 426 529
		<b>1 655 323</b>	<b>3 426 529</b>
<b>18</b>	<b>SERVICE CHARGES</b>		
	Electricity	8 253 667	7 085 743
	Water	6 681 933	5 070 503
	Refuse removal	1 368 891	1 733 902
	Sewerage and Sanitation Charges	4 384 260	4 014 667
		20 688 751	17 904 816
	Less: Rebates	(3 834 115)	(4 513 821)
	<b>Total Service Charges</b>	<b>16 854 636</b>	<b>13 390 995</b>
	Rebates can be defined as any income that the Municipality is entitled by law to levy, but which has subsequently been forgone by way of rebate or remission.		
<b>19</b>	<b>OTHER INCOME</b>		
	Other	74 706	47 552
	Unknown receipts	152 964	132 196
	Administration fees	79 764	32 551
	Building plan fees	21 139	14 764



# ANNUAL REPORT 2010 – 2011 -MUNICIPALITY SIYATHEMBA MUNISIPALITEIT

	Valuation Certificate reprints	5 669	15 775
	Tombfees	20 376	17 003
	Charges for installations	185 191	78 075
	Garden refuse services	34 595	29 117
	<b>Total Other Income</b>	<b>574 404</b>	<b>367 034</b>
<b>20</b>	<b>EMPLOYEE RELATED COST</b>		
	Bargaining Council Levy	13 141	-
	Bonus and Leave	1 563 009	821 602
	Contributions for UIF, pensions and medical aids	4 342 276	2 174 719
	Housing Subsidy	83 067	98 630
	Long service awards	474 086	215 092
	Overtime	668 956	594 858
	Salaries and Wages	11 665 694	10 462 458
	Travel, motor car, telephone, assistance and other allowances	1 907 566	762 882
		20 717 795	15 130 240
	<b>Less: Employee Costs allocated elsewhere</b>	<b>-</b>	<b>-</b>
	<b>Total Employee Related Costs</b>	<b>20 717 795</b>	<b>15 130 240</b>
	<b>KEY MANAGEMENT PERSONNEL</b>		
	Municipal Manager is appointed on a 5-year and the Chief Financial officer on a 5-year fixed contract. There are no post-employment or termination benefits payable to them at the end of the contract period. It should be noted that the Manager Technical services are appointed on a permanent contract and therefore council will therefore be liable for post-employment benefits as well as termination benefits.		
	<b>REMUNERATION OF KEY MANAGEMENT PERSONNEL</b>		
	<i><b>Remuneration of the Municipal Manager</b></i>		
	Annual Remuneration	498 041	487 049
	Car Allowance	144 146	175 710
	Annual Bonus	40 409	40 409
	Telephone allowance	12 000	22 000
	Contributions to UIF, Medical, Pension Funds and Bargaining Council	134 295	159 483
	Additional travel	50 338	-
	<b>Total</b>	<b>879 229</b>	<b>884 651</b>
	<i><b>Remuneration of the Director Infrastructure and Technical Services</b></i>		
	Annual Remuneration	356 188	
	Car Allowance	90 000	
	Annual Bonus	29 000	
	Telephone allowance	4 620	
	Contributions to UIF, Medical, Pension Funds and Bargaining Council	77 665	
	Additional travel	12 883	
	<b>Total</b>	<b>570 356</b>	<b>-</b>
	<i><b>Remuneration of the Director Financial Services</b></i>		
	Annual Remuneration	484 648	378 690
	Car Allowance	84 000	163 001
	Annual Bonus	33 000	31 250
	Telephone allowance	9 000	9 000
	Contributions to UIF, Medical, Pension Funds and Bargaining Council	31 183	37 232
	Additional travel	154 108	-
	<b>Total</b>	<b>795 939</b>	<b>619 173</b>
<b>21</b>	<b>REMUNERATION OF COUNCILLORS</b>		
	Mayor	426 844	536 302
	Councillors	1 296 502	1 664 164
	<b>Total Councillors' Remuneration</b>	<b>1 723 346</b>	<b>2 200 466</b>
	<i><b>In-kind Benefits</b></i>		
	The Mayor is full-time and all the committee members are part-time. The Mayor are provided with secretarial support and an office at the cost of the Council.		

**ANNUAL REPORT 2010 – 2011 -MUNICIPALITY SIYATHEMBA MUNISIPALITEIT**

<b>22</b>	<b>DEBT IMPAIRMENT</b>		
	Trade Receivables from exchange transactions - Note 12	5 489 325	4 005 664
	Trade Receivables from non-exchange transactions - Note 13	1 117 591	1 125 186
	<b>Total Contribution to Debt Impairment</b>	<b>6 606 915</b>	<b>5 130 850</b>
<b>23</b>	<b>DEPRECIATION AND AMORTISATION</b>		
	Property Plant and Equipment	9 305 120	9 305 120
		<b>9 305 120</b>	<b>9 305 120</b>
<b>24</b>	<b>FINANCE COSTS</b>		
	Bank Overdraft	5 555	24 824
	Long-term Liabilities	1 269	10 307
	Creditors	22	1 018
	<b>Total finance charges</b>	<b>6 846</b>	<b>36 148</b>
<b>25</b>	<b>BULK PURCHASES</b>		
	Electricity	7 142 943	4 533 163
	Water	99 819	59 539
	<b>Total Bulk Purchases</b>	<b>7 242 761</b>	<b>4 592 702</b>
<b>26</b>	<b>GRANTS AND SUBSIDIES</b>		
	Funerals	19 914	27 832
	Donations	3 055	5 460
	Other	78 320	52 959
	<b>Total Grants and Subsidies</b>	<b>101 289</b>	<b>86 251</b>
		<b>2011</b>	<b>2010</b>
		<b>R</b>	<b>R</b>
<b>27</b>	<b>GENERAL EXPENSES</b>		
	Audit Fees	2 050 877	686 494
	Bank Charges	99 455	73 580
	Stipend Ward Committee	312 227	-
	Professional Fees	961	693 643
	Legal Cost	46 173	41 628
	Insurance	754 004	379 912
	Adverts, Copies and Stationary	1 354 745	159 419
	Uniforms and overalls	282 698	3 152
	IT related expenditure	68 088	-
	Telephone	583 506	336 171
	Training	215 614	-
	Travel and subsistence	733 296	782 156
	Services	224 493	326 427
	Lease expenditure	88 965	115 272
	Other	631 698	780 858
	<b>General Expenses</b>	<b>7 446 801</b>	<b>4 378 712</b>

**ANNUAL REPORT 2010 – 2011 -MUNICIPALITY SIYATHEMBA MUNISIPALITEIT**

		<b>2 011</b>
		<b>R</b>
<b>28</b>	<b>CHANGE IN ACCOUNTING POLICY IN TERMS OF GRAP 3</b>	
	There were no changes in the accounting policy for the period under review.	
<b>29</b>	<b>CORRECTION OF ERROR IN TERMS OF GRAP 3</b>	
<b>29.1</b>	<b>Unspent Government Grants and Subsidies</b>	
	<b>Balance previously reported</b>	<b>2 917 968</b>
	Restatement on MIG unspent portion (2008/2009 closing balance) due to incomplete information available from the District Municipality in the previous reporting period - Refer to note 29.2	508 561
	The restatement done in the past on the unspent portion of MIG monies, paid over to the District Municipality, was done incorrectly. New information was obtained and therefore we had to restate the opening balance.	
		<b>3 426 529</b>
<b>29.2</b>	<b>Receivables from non-exchange transactions</b>	
	<b>Balance previously reported - Pixley ka seme District Municipality</b>	<b>2 655 545</b>
	Restatement on MIG unspent portion (2008/2009 closing balance) due to incomplete information available from the District Municipality in the previous reporting period - Refer to note 29.1	508 561
	The restatement done in the past on the unspent portion of MIG monies, paid over to the District Municipality, was done incorrectly. New information was obtained and therefore we had to restate the opening balance.	
		<b>3 164 106</b>
	<b>Balance previously reported - Rates</b>	<b>7 251 117</b>
	Corrections on opening balances - Refer note 29.7	(199 407)
	The opening balance of the 2009/2010 financial periods was incorrectly and now corrected to ensure the subledger agrees with the ledger.	
		<b>7 051 710</b>
<b>29.3</b>	<b>Long-term Receivables</b>	
	<b>Balance previously reported - Consumer debtor</b>	<b>374 507</b>
	Restatement of consumer debtors previously disclosed as long-term receivables - Refer notes 29.4 and 10	(374 507)
	Due to lack of supporting documents in the past to support the reclassification of consumer debtors to Long-term Receivables the amount is now again reclassified as Trade Receivables.	
		<b>-</b>
<b>29.4</b>	<b>Receivables from exchange transactions</b>	
	<b>Balance previously reported - Sundry debtors</b>	<b>385 349</b>
	Restatement of consumer debtors previously disclosed as long-term receivables - Refer notes 12 and 29.3	374 507
	Due to lack of supporting documents in the past to support the reclassification of consumer debtors to Long-term Receivables the amount is now again reclassified as Trade Receivables.	
		<b>759 856</b>
	<b>Balance previously reported - Consumer debtors</b>	<b>11 886 662</b>
	Corrections on opening balances - Refer note 29.7	191 734
	The opening balance of the 2009/2010 financial periods was incorrectly and now corrected to ensure the subledger agrees with the ledger.	
		<b>12 078 396</b>

# ANNUAL REPORT 2010 – 2011 -MUNICIPALITY SIYATHEMBA MUNISIPALITEIT

<b>29.5</b>	<b>Cash and cash equivalents</b>		
	<b>Balance previously reported</b>		<b>(553 417)</b>
	Corrections on opening balances - Refer note 29.7		(18 696)
	Restatement of stale cheque - Refer note 30		150
	Correction done on the bank ledger account due to transactions that occurred on the cashbook but did not appear on the ledger now corrected.		
			<b>(571 962)</b>
<b>29.6</b>	<b>Property Plant and Equipment</b>		
	<b>Balance previously reported</b>		<b>158 661 911</b>
	Reconstruction of Infrastructure - Cost		98 114 228
	Reconstruction of Infrastructure - Accumulated depreciation		<b>(9 401 545)</b>
	Reconstruction of Land and buildings and Community assets - Cost		<b>11 401 691</b>
	Reconstruction of Land and buildings and Community assets - Accumulated depreciation		<b>(84 545)</b>
	Reconstruction of Other assets - Cost		<b>(3 162 941)</b>
	Reconstruction of Other assets - Accumulated depreciation		<b>353 645</b>
	Measurement and unbundling of assets was done during the period under review based on Directive 7. As a result of the measurement applied the values changed from the previous values used and therefore the above changes in values occurred.		
			<b>255 882 443</b>
<b>29.7</b>	<b>Accumulated Surplus/(Deficit)</b>		
			<b>156 076 155</b>
	Correction done on Receivables from non-exchange transactions - Refer to note 29.2		(199 407)
	Correction done on Receivables from exchange transactions - Refer to note 29.4		191 734
	Correction done on cash and cash equivalents - Refer note 29.5		(18 696)
	Correction done on Property, Plant and Equipment		97 220 532
	Measurement and unbundling of assets was done during the period under review based on Directive 7. As a result of the measurement applied the values changed and therefore the accumulated depreciation also changed.		
	<b>Total</b>		<b>253 270 319</b>
<b>30</b>	<b>STATEMENT OF FINANCIAL PERFORMANCE</b>		
	<b>Balance previously reported</b>		<b>12 959 159</b>
	Write off of irrecoverable over expenditure on housing grants - Refer to note 29.1		150
	Correction on depreciation		(4 695 914)
	Correction done on Agency service due to the fact that the portion due to the department in the 2009/2010 financial period was recognised as revenue.		(371 578)
	Correction done on Revenue from exchange transactions due to incorrect mapping on the system		17 920
	Correction done on Revenue from non-exchange transactions due to incorrect mapping on the system		6 824
	Licences and Permits incorrectly included as part of Agency services		-
	Effect on Agency services		(812 680)
	Effect on Licences and Permits		812 680
	Employee expenditure incorrectly included as part of General expenses		-
	Effect on General expenses		389
	Effect on Employee expenditure		(389)
	<b>Total</b>		<b>7 916 562</b>
		<b>2011</b>	<b>2010</b>
		<b>R</b>	<b>R</b>
<b>31</b>	<b>RECONCILIATION BETWEEN NET SURPLUS/(DEFICIT) FOR THE YEAR AND CASH GENERATED/(ABSORBED) BY OPERATIONS</b>		
	Surplus/(Deficit) for the year	(3 575 908)	7 916 562
	<b>Adjustments for:</b>		
	Depreciation	9 305 120	9 305 120
	Gain on disposal of property, plant and equipment	(13 162)	(173 023)
	Debt Impairment	6 606 915	5 130 850
	Contribution to staff leave and bonuses	663 182	38 576
	Operating lease income accrued	2 178	3 372
	Operating Surplus/(Deficit) before changes in working capital	12 988 325	22 221 457
	Changes in working capital	(72 345)	(8 754 661)
	Increase/(Decrease) in Trade and Other Payables	4 818 004	(2 082 118)
	Increase/(Decrease) in Unspent Conditional Government Grants and Receipts	(1 771 206)	(958 020)
	Increase/(Decrease) in Taxes	143 612	(726 556)
	(Increase)/Decrease in Inventory	(60 642)	24 859
	(Increase)/Decrease in Trade and other receivables	(3 202 111)	(5 012 827)
	<b>Cash generated/(absorbed) by operations</b>	<b>12 915 980</b>	<b>13 466 796</b>

								2011	2010	
								R	R	
32	CASH AND CASH EQUIVALENTS									
	Cash and cash equivalents included in the cash flow statement comprise the following:									
	Call Investments Deposits - Note 15							754 587	2 060	
	Bank - Note 15							-	-	
	Bank overdraft - Note 15							(578 986)	(553 417)	
	Total cash and cash equivalents							175 602	(551 357)	
33	RECONCILIATION OF AVAILABLE CASH AND INVESTMENT RESOURCES									
	Cash and Cash Equivalents - Note 32							175 602	(551 357)	
								175 602	(551 357)	
	Less:							2 243 257	3 870 852	
	Unspent Committed Conditional Grants - Note 7							1 655 323	3 426 529	
	VAT - Note 8							587 934	444 323	
	Resources available for working capital requirements							(2 067 656)	(4 422 209)	
34	BUDGET COMPARISONS									
								2011	2011	
								R		
								(Actual)	(Budget)	
								(Variance)	(%)	
34.1	Operational									
	Revenue by source									
	Property Rates							4 869 689	4 807 786	
	Government Grants and Subsidies - Capital							18 264 539	-	
	Government Grants and Subsidies - Operating							13 819 075	32 137 190	
	Public Contributions and Donations							-	-	
	Third Party Payments							83 268	(43 700)	
	Fines							30 687	24 100	
	Service Charges							16 854 636	17 068 411	
	Rental of Facilities and Equipment							356 615	516 980	
	Interest Earned - external investments							70 953	80 000	
	Interest Earned - outstanding debtors							621 041	625 000	
	Licences and Permits							(2 095 932)	670 000	
	Agency Services							1 614 655	1 250 000	
	Other Income							574 404	382 900	
	Gain on disposal of Property, Plant and Equipment							13 162	-	
								55 076 792	57 518 667	
								(2 441 875)	-4%	



**ANNUAL REPORT 2010 – 2011 -MUNICIPALITY SIYATHEMBA MUNISIPALITEIT**

<b>Expenditure by nature</b>							
Employee related cost	20 717 795	19 263 255	(1 454 540)	8%			
Remuneration of Councillors	1 723 346	2 130 000	406 654	-19%			
Debt Impairment	6 606 915	1 240 350	(5 366 565)	433%			
Depreciation and Amortisation	9 305 120	150 000	(9 155 120)	6103%			
Repairs and Maintenance	2 716 827	2 398 820	(318 007)	13%			
Stock Adjustments	-	-	-	0%			
Finance Costs	6 846	20 000	13 154	-66%			
Bulk Purchases	7 242 761	7 800 000	557 239	-7%			
Contracted services	-	-	-	0%			
Grants and Subsidies	101 289	400 000	298 711	-75%			
Operating Grant Expenditure	2 785 000	18 806 717	16 021 717	-85%			
General Expenses	7 446 801	5 309 525	(2 137 275)	40%			
	58 652 700	57 518 668	(1 134 033)	2%			
<b>Net Surplus for the year</b>	<b>(3 575 908)</b>	<b>(0)</b>	<b>(3 575 908)</b>				
	<b>2011</b>	<b>2011</b>	<b>2011</b>	<b>2011</b>			
	<b>R</b>	<b>R</b>	<b>R</b>	<b>(%)</b>			
	<b>(Actual)</b>	<b>(Budget)</b>	<b>(Variance)</b>	<b>(%)</b>			
<b>34.2 Expenditure by Vote</b>							
Council	4 867 985	3 430 768	1 437 216	42%			
Municipal Manager	4 719 292	3 056 633	1 662 659	54%			
Administration: Treasury	19 510 993	8 126 088	11 384 905	140%			
Land	43 520	30 000	13 520	45%			
Housing Scheme Employees	17 546	18 000	(454)	-3%			
Municipal Buildings	358 076	346 730	11 346	3%			
Libraries	1 002 284	999 837	2 447	0%			
Cemeteries	(56)	18 500	(18 556)	-100%			
Camping	173 020	27 400	145 620	531%			
Parks and Recreation	788 827	1 043 826	(254 999)	-24%			
Fire brigade	5 224	18 000	(12 776)	-71%			
Disaster Management	25 570	80 000	(54 430)	-68%			
Health	2 233	40 000	(37 767)	-94%			
Public Works	4 853 970	12 477 992	(7 624 022)	-61%			
Roads	1 710	8 571 482	(8 569 772)	-100%			
Licences and Traffic	1 134 311	1 184 512	(50 201)	-4%			
Electricity	9 014 700	8 354 465	660 235	8%			
Water	6 227 425	4 723 558	1 503 867	32%			
Sanitation	3 705 292	2 750 309	954 983	35%			
Refuse	2 199 221	2 214 441	(15 220)	-1%			
Landing field	1 557	6 126	(4 569)	-75%			
	58 652 700	57 518 668	1 134 033	2%			

**ANNUAL REPORT 2010 – 2011 -MUNICIPALITY SIYATHEMBA MUNISIPALITEIT**

35	UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED		2011	2010
			R	R
35.1	Unauthorised expenditure			
	Reconciliation of unauthorised expenditure:			
	Opening balance		12 227 949	2 902 494
	Unauthorised expenditure current year		21 283 270	9 325 454
	Written off by council		-	-
	Transfer to receivables for recovery		-	-
	Unauthorised expenditure awaiting authorisation		33 511 219	12 227 949
	Incident	Disciplinary steps/criminal proceedings		
	Over expenditure on votes	None		
			2011	2010
			R	R
	UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED (CONTINUE)			
35.2	Fruitless and wasteful expenditure			
	Reconciliation of fruitless and wasteful expenditure:			
	Opening balance		420 582	223 390
	Fruitless and wasteful expenditure current year		81 236	197 193
	Written off by council		-	-
	Transfer to receivables for recovery		-	-
	Fruitless and wasteful expenditure awaiting further action		501 818	420 582
	Incident	Disciplinary steps/criminal proceedings		
	Interest was paid over to SARS and the Auditor General due to late payments.	None		
			2011	2010
			R	R
35.3	Irregular expenditure			
	Reconciliation of irregular expenditure:			
	Opening balance		5 113 322	1 687 559
	Irregular expenditure current year		10 388 377	3 425 763
	Written off by council		-	-
	Transfer to receivables for recovery		-	-
	Irregular expenditure awaiting further action		15 501 699	5 113 322
			2011	2010
			R	R
36	ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT			
36.1	Contributions to organised local government - [MFMA 125 (1)(c)] - SALGA CONTRIBUTIONS			
	Opening balance		-	-
	Council subscriptions		100 000	100 000
	Amount paid - current year		(100 000)	(100 000)
	Amount paid - previous years		-	-
	Balance unpaid (included in creditors)		-	-

**ANNUAL REPORT 2010 – 2011 -MUNICIPALITY SIYATHEMBA MUNISIPALITEIT**

		2011 R	2010 R
<b>36.2</b>	<b><u>Audit fees - [MFMA 125 (1)(c)]</u></b>		
	Opening balance	1 603 054	779 011
	Current year audit fee	866 622	1 410 325
	External Audit - Auditor-General	866 622	1 286 083
	Internal Audit	-	114 242
	Audit Committee	-	10 000
	Amount paid - current year	(700 000)	(586 282)
	<b>Balance unpaid (included in creditors)</b>	<b>1 769 676</b>	<b>1 603 054</b>
		2011 R	2010 R
<b>36.3</b>	<b><u>PAYE, SDL and UIF - [MFMA 125 (1)(c)]</u></b>		
	Opening balance	138 808	-
	Current year payroll deductions and Council Contributions	2 151 028	1 289 469
	Amount paid - current year	(2 151 028)	(1 150 661)
	<b>Balance unpaid (included in creditors)</b>	<b>138 808</b>	<b>138 808</b>
<b>36.4</b>	<b><u>Pension and Medical Aid Deductions - [MFMA 125 (1)(c)]</u></b>		
	Opening balance	-	-
	Current year payroll deductions and Council Contributions	3 328 302	288 428
	Amount paid - current year	(3 328 302)	(288 428)
	<b>Balance unpaid (included in creditors)</b>	<b>-</b>	<b>-</b>
<b>36.5</b>	<b><u>Councillor's arrear consumer accounts - [MFMA 124 (1)(b)]</u></b>		
	The following Councillors had arrear accounts for more than 90 days as at 30 June 2011:		
		2011 R Outstanding more than 90 days	2010 R Outstanding more than 90 days
	Councillor G.P Mackay	-	5 387
	Councillor P. Papier	10 879	-
	Councillor G. McDonald	7 323	-
	Councillor E. Martin	5 107	-
	Councillor J. Malepo	9 012	-
	Councillor B.A Titus	1 726	-
	<b>Total Councillor Arrear Consumer Accounts</b>	<b>34 047</b>	<b>5 387</b>
<b>36.6</b>	<b><u>Non-Compliance with MFMA - [MFMA 125 (2)]</u></b>		
	The municipality did not fully comply with the Supply Chain regulations during the year since we did not fully establish a supply chain unit.		
	The annual financial statements was not submitted within 2 months after the reporting date as stipulated by section 126 (a) of the MFMA.		

		2011 R	2010 R
37	<b>CAPITAL COMMITMENTS</b>		
	<b>Commitments in respect of capital expenditure:</b>		
	Approved but not contracted for:	4 234 434	7 156 000
	Infrastructure assets:		
	Roads - Townships	3 184 434	-
	Sewerage networks	1 049 999	-
		4 234 434	
	Total commitments consist out of the following:		
	This expenditure will be financed from:		
	Government Grants	4 234 434	7 026 000
	Own Resources	-	130 000
		4 234 434	7 156 000
		2011 R	2010 R
38	<b>FINANCIAL RISK MANAGEMENT</b>		
	The activities of the municipality expose it to a variety of financial risks, including market risk (comprising fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The municipality's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance.		
	<b>(a) Foreign Exchange Currency Risk</b>		
	The municipality does not engage in foreign currency transactions.		
	<b>(b) Price risk</b>		
	The municipality is not exposed to price risk.		
	<b>(c) Interest Rate Risk</b>		
	As the municipality has significant interest-bearing liabilities, the entity's income and operating cash flows are substantially dependent on changes in market interest rates.		
	The municipality analyses its potential exposure to interest rate changes on a continuous basis. Different scenarios are simulated which include refinancing, renewal of current positions, alternative financing and hedging. Based on these scenarios, the entity calculates the impact that a change in interest rates will have on the surplus/deficit for the year. These scenarios are only simulated for liabilities which constitute the majority of interest bearing liabilities.		
	The municipality did not hedge against any interest rate risks during the current year.		
	The potential impact on the entity's surplus/deficit for the year due to changes in interest rates were as follow:		
	1% (2010 - 0.5%) Increase in interest rates	(5 790)	(2 767)
	0.5% (2010 - 0.5%) Decrease in interest rates	2 895	2 767

**(d) Credit Risk**

Credit risk is the risk that a counter party to a financial or non-financial asset will fail to discharge an obligation and cause the municipality to incur a financial loss.

Credit risk consist mainly of cash deposits, cash equivalents, trade and other receivables and unpaid conditional grants and subsidies.

Trade and other debtors are disclosed net after provisions are made for impairment and bad debts. Trade debtors comprise of a large number of ratepayers, dispersed across different sectors and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors. Credit risk pertaining to trade and other debtors is considered to be moderate due the diversified nature of debtors and immaterial nature of individual balances. In the case of consumer debtors the municipality effectively has the right to terminate services to customers but in practice this is difficult to apply. In the case of debtors whose accounts become in arrears, Council endeavours to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy.

All rates and services are payable within 30 days from invoice date. Refer to note 12 and 13 for all balances outstanding longer than 30 days. These balances represent all debtors at year end which defaulted on their credit terms. Also refer to note 12 for balances included in receivables that were re-negotiated for the period under review.

Balances past due not impaired:

	2011 %	2011 R	2010 %	2010 R
<u>Exchange Receivables</u>				
Electricity	28.19%	24 856	0.46%	54 769
Water	22.03%	19 427	0.16%	19 578
Refuse	13.31%	11 737	0.06%	7 187
Sewerage	24.99%	22 038	0.10%	12 380
Other	11.48%	10 121	0.02%	2 433
	100.00%	88 179	0.80%	96 347

No receivables are pledged as security for financial liabilities.

Due to the short term nature of receivables the carrying value disclosed in note 12 and 13 of the financial statements is an approximation of its fair value. Interest on overdue balances are included at prime lending rate plus 1% where applicable.

The provision for bad debts could be allocated between the different classes of debtors as follows:

	2011 %	2011 R	2010 %	2010 R
<u>Exchange Receivables</u>				
Electricity	4.70%	823 332	3.76%	452 575
Water	49.79%	8 721 968	45.90%	5 520 364
Refuse	7.40%	1 296 091	8.36%	1 005 740
Sewerage	32.85%	5 754 990	36.86%	4 432 918
Other	5.25%	920 108	5.12%	615 568
	100.00%	17 516 489	100%	12 027 164

The entity only deposits cash with major banks with high quality credit standing. An amount of R750 000 was pledge as security for overdrawn bank account. Although the credit risk pertaining to cash and cash equivalents are considered to be low, the maximum exposure are disclosed below.

Long-term Receivables and Other Debtors are individually evaluated annually at Balance Sheet date for impairment.

	2011 R	2010 R
Financial assets exposed to credit risk at year end are as follows:		
Long term receivables	114 955	126 142
Receivables from exchange transactions	1 825 196	1 661 781
Cash and Cash Equivalents	754 587	2 060
	2 694 738	1 789 984



**(e) Liquidity Risk**

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying business, the treasury maintains flexibility in funding by maintaining availability under credit lines.

The entity's risk to liquidity is a result of the funds available to cover future commitments. The entity manages liquidity risk through an ongoing review of future commitments and credit facilities.

The table below analyses the entity's financial liabilities into relevant maturity groupings based on the remaining period at the financial year end to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than 1 year	Between 1 and 5 years	Between 5 and 10 years	Over 10 Years
<b>2011</b>				
Trade and Other Payables	6 931 476	-	-	-
Unspent conditional government grants and receipts	1 655 323	-	-	-
Cash and Cash Equivalents	578 986			
	<u>9 165 784</u>	<u>-</u>	<u>-</u>	<u>-</u>
	Less than 1 year	Between 1 and 5 years	Between 5 and 10 years	Over 10 Years
<b>2010</b>				
Trade and Other Payables	3 175 458	-	-	-
Unspent conditional government grants and receipts	3 426 529	-	-	-
Cash and Cash Equivalents	571 962			
	<u>7 173 949</u>	<u>-</u>	<u>-</u>	<u>-</u>
			<b>2011 R</b>	<b>2010 R</b>

**39 FINANCIAL INSTRUMENTS**

In accordance with IAS 39.09 the financial instruments of the municipality are classified as follows:

The fair value of financial instruments approximates the amortised costs as reflected below.

<b>39.1 Financial Assets</b>	<b>Classification</b>		
<b>Long-term Receivables</b>			
Officials Housing Loans	Financial instruments at amortised cost	114 955	126 142
<b>Receivables</b>			
Receivables from exchange transactions	Financial instruments at amortised cost	1 825 196	1 661 781
<b>Current Portion of Long-term Receivables</b>			
Officials Housing Loans	Financial instruments at amortised cost	13 115	11 187
<b>Short-term Investment Deposits</b>			
Call Deposits	Financial instruments at amortised cost	754 587	2 060
<b>Bank Balances and Cash</b>			
Bank Balances	Financial instruments at amortised cost	-	-
		<u>2 707 853</u>	<u>1 801 171</u>

# ANNUAL REPORT 2010 – 2011 -MUNICIPALITY SIYATHEMBA MUNISIPALITEIT

<b>SUMMARY OF FINANCIAL ASSETS</b>				
	Financial instruments at amortised cost		2 707 853	1 801 171
	<b>At amortised cost</b>		<b>2 707 853</b>	<b>1 801 171</b>
<b>FINANCIAL INSTRUMENTS (CONTINUE)</b>				
<b>39.2</b>	<b>Financial Liability</b>	<b>Classification</b>		
	<b>Payables from exchange transactions</b>			
	Trade creditors	Financial instruments at amortised cost	6 927 492	3 172 015
	Deposits	Financial instruments at amortised cost	3 944	3 402
	Other	Financial instruments at amortised cost	40	40
	<b>Other Payables</b>			
	Government Subsidies and Grants	Financial instruments at amortised cost	1 655 323	2 917 968
			<b>8 586 799</b>	<b>6 093 426</b>
<b>SUMMARY OF FINANCIAL LIABILITY</b>				
	Financial instruments at amortised cost		<b>8 586 799</b>	<b>6 093 426</b>
<b>40</b>	<b>EVENTS AFTER THE REPORTING DATE</b>			
	The municipality has no events after reporting date during the financial year ended 2010/2011.			
<b>41</b>	<b>IN-KIND DONATIONS AND ASSISTANCE</b>			
	The municipality did not receive any in-kind donations or assistance during the year under review.			
<b>42</b>	<b>PRIVATE PUBLIC PARTNERSHIPS</b>			
	Council has not entered into any private public partnerships during the financial year.			
<b>43</b>	<b>CONTINGENT LIABILITY</b>			
	None			
<b>44</b>	<b>RELATED PARTIES</b>			
	Key Management and Councillors receive and pay for services on the same terms and conditions as other ratepayers / residents.			
	The rates, service charges and other charges are in accordance with approved tariffs that were advertised to the public. No bad debt expenses have been recognised in respect of amounts owed by related parties.			
<b>44.1</b>	<b>Related Party Loans</b>			
	Since 1 July 2004 loans to councillors and senior management employees are not permitted. Loans granted prior to this date are disclosed in note 10 to the Annual Financial Statements.			
<b>44.2</b>	<b>Compensation of key management personnel</b>			
	The compensation of key management personnel is set out in note 20 to the Annual Financial Statements.			
<b>44.3</b>	<b>Other related party transactions</b>			
	The following purchases were made during the year where Councillors or staff have an interest:			
	None			
<b>45</b>	<b>FINANCIAL SUSTAINABILITY</b>			
	The indicators or conditions that may, individually or collectively, cast significant doubt about the going concern assumption are as follows:			
	<b>Financial Indicators</b>			
	The debtors impairment ratio increased to 90% from the previous years 75%.			
	All trade creditors was not settled within 30 days as required by the MFMA.			
	Trade payables increased to 161% from the previous financial year and grant funding was utilised to fund operational expenditure which was disclosed as irregular expenditure in the previous year.			

**ANNUAL REPORT 2010 – 2011 -MUNICIPALITY SIYATHEMBA MUNISIPALITEIT**

<b>APPENDIX A - Unaudited</b>						
<b>SIYATHEMBA LOCAL MUNICIPALITY</b>						
<b>SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2011</b>						
<b>MUNICIPAL VOTES CLASSIFICATION</b>						
<b>2010 Actual Income R</b>	<b>2010 Actual Expenditure R</b>	<b>2010 Surplus/ (Deficit) R</b>		<b>2011 Actual Income R</b>	<b>2011 Actual Expenditure R</b>	<b>2011 Surplus/ (Deficit) R</b>
635 089	(4 892 951)	(4 257 863)	Council	598 100	(4 867 985)	(4 269 885)
97 430	(2 303 594)	(2 206 163)	Municipal Manager	128 376	(4 719 292)	(4 590 916)
38 136	-	38 136	Housing	35 254	-	35 254
8 802 464	(11 161 145)	(2 358 682)	Administration: Treasury	10 867 657	(19 510 993)	(8 643 336)
4 668 954	-	4 668 954	Property Tax	4 869 689	-	4 869 689
143 102	(26 710)	116 392	Land	178 595	(43 520)	135 075
29 760	(16 799)	12 961	Housing Scheme Employees	24 880	(17 546)	7 334
483 089	(232 893)	250 196	Municipal Buildings	320 947	(358 076)	(37 129)
361 000	(656 396)	(295 396)	Libraries	357 018	(1 002 284)	(645 266)
17 003	(10 217)	6 787	Cemeteries	21 430	56	21 486
60 484	(7 530)	52 954	Camping	-	(173 020)	(173 020)
-	(704 047)	(704 047)	Parks and Recreation	-	(788 827)	(788 827)
-	2 219	2 219	Fire brigade	-	(5 224)	(5 224)
-	11 807	11 807	Disaster Management	-	(25 570)	(25 570)
-	-	-	Health	-	(2 233)	(2 233)
7 179 645	(4 918 740)	2 260 904	Public Works	8 248 940	(4 853 970)	3 394 970
10 986 914	-	10 986 914	Roads	5 652 150	(1 710)	5 650 440
1 241 937	(991 777)	250 161	Licences and Traffic	(505 037)	(1 134 311)	(1 639 349)
7 450 423	(5 647 711)	1 802 712	Electricity	9 393 945	(9 014 700)	379 245
6 110 790	(4 822 235)	1 288 555	Water	7 563 534	(6 227 425)	1 336 109
4 218 472	(3 491 574)	726 898	Sanitation	5 023 658	(3 705 292)	1 318 366
1 952 590	(1 645 895)	306 695	Refuse	2 297 658	(2 199 221)	98 437
-	(1 786)	(1 786)	Landing field	-	(1 557)	(1 557)
54 477 282	(41 517 974)	12 959 308	Sub Total	55 076 792	(58 652 700)	(3 575 908)
-	-	-		-	-	-
54 477 282	(41 517 974)	12 959 308	<b>Total</b>	55 076 792	(58 652 700)	(3 575 908)

ANNUAL REPORT 2010 – 2011 -MUNICIPALITY SIYATHEMBA MUNISIPALITEIT

APPENDIX B - Unaudited						
SIYATHEMBA LOCAL MUNICIPALITY						
SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2011						
GENERAL FINANCE STATISTIC CLASSIFICATIONS						
2010 Actual Income R	2010 Actual Expenditure R	2010 Surplus/ (Deficit) R		2011 Actual Income R	2011 Actual Expenditure R	2011 Surplus/ (Deficit) R
732 519	(7 196 545)	(6 464 026)	Executive & Council	726 476	(9 587 277)	(8 860 801)
2 374 511	(2 646 369)	(271 857)	Corporate Services	433 086	(3 519 761)	(3 086 675)
13 471 417	(11 161 145)	2 310 272	Budget & Treasury	15 737 346	(19 510 993)	(3 773 648)
-	12 241	12 241	Technical Services	-	(32 351)	(32 351)
7 179 645	(4 918 740)	2 260 904	Public Safety	8 248 940	(4 853 970)	3 394 970
10 986 914	-	10 986 914	Roads	5 652 150	(1 710)	5 650 440
7 450 423	(5 647 711)	1 802 712	Electricity	9 393 945	(9 014 700)	379 245
6 110 790	(4 822 235)	1 288 555	Water	7 563 534	(6 227 425)	1 336 109
4 218 472	(3 491 574)	726 898	Waste Water Management	5 023 658	(3 705 292)	1 318 366
1 952 590	(1 645 895)	306 695	Waste Management	2 297 658	(2 199 221)	98 437
54 477 282	(41 517 974)	12 959 308	<b>Total</b>	55 076 792	(58 652 700)	(3 575 908)

APPENDIX C - Unaudited								
SIYATHEMBA LOCAL MUNICIPALITY								
DISCLOSURES OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, 56 OF 2003								
Grant Description	Balance 1 JULY 2010	Correction of error	Balance 1 JULY 2010	Grants Received	Write Offs/ Transfers	Operating Expenditure during the year Transferred to Revenue	Capital Expenditure during the year Transferred to Revenue	Balance 1 JULY 2011
<b>UNSPENT AND UNPAID GOVERNMENT GRANTS AND RECEIPTS</b>								
	R	R	R	R		R	R	R
<b><u>National Government Grants</u></b>								
Equitable Share	-	-	-	15 440 466		15 440 466		-
Local Government Financial Management Grant	-	-	-	1 200 000		1 200 000		-
Municipal Infrastructure Grant	2 867 821	508 561	3 376 382	5 526 000			8 166 925	735 457
Municipal Systems Improvement Grant	-	-	-	750 000		750 000		-
DWAF	-	-	-	344 638		344 638		-
<b>Total National Government Grants</b>	<b>2 867 821</b>	<b>508 561</b>	<b>3 376 382</b>	<b>22 916 466</b>	<b>-</b>	<b>17 735 104</b>	<b>8 166 925</b>	<b>735 457</b>
<b><u>Provincial Government Grants</u></b>								
		195 624						
		308 307	308 402	6 172 704	-95			
Project Library	-	-	-	360 000		360 000		-
Department of Roads - Tarring projects	-	-	-	6 172 800	-	-	5 652 150	520 650
Project Housing	-	-	-	519 104		169 436		349 669
<b>Total Provincial Government Grants</b>		-	-	<b>7 051 904</b>	<b>-</b>	<b>529 436</b>	<b>5 652 150</b>	<b>870 318</b>
<b><u>Other Grant Providers</u></b>								
LOTTO - Sport field upgrading	-	-	-					-
EPWP Project	3 766	-	3 766					3 166
Feasibility study funding	46 381	-	46 381					46 381
<b>Total Other Grant Providers</b>	<b>50 147</b>	<b>-</b>	<b>50 147</b>					<b>49 547</b>
<b>Total</b>	<b>2 917 968</b>	<b>508 561</b>	<b>3 426 529</b>	<b>29 968 370</b>	<b>-</b>	<b>18 264 539</b>	<b>13 819 075</b>	<b>1 655 323</b>

*Municipality  
Siyathemba  
Munisipaliteit*



*Report of the Auditor - General*  
**2010-2011**



## REPORT OF THE AUDITOR-GENERAL TO THE NORTHERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON SIYATHEMBA LOCAL MUNICIPALITY

### REPORT ON THE FINANCIAL STATEMENTS

#### Introduction

1. I was engaged to audit the accompanying financial statements of the Siyathemba Local Municipality, which comprise the statement of financial position as at 30 June 2011, the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 31 to 88.

#### Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP), the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act of South Africa, 2010 (Act No. 1 of 2010 as amended) (DoRA), and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) my responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the International Standards on Auditing and *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*. Because of the matters described in the basis for disclaimer of opinion paragraphs, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

#### Basis for disclaimer of opinion

##### Revenue from non-exchange transactions

4. The completeness, accuracy, occurrence, classification and cut-off of the revenue from non-exchange transactions disclosed as R37 067 258 (2010: R38 223 451) in the statement of financial performance could not be confirmed. Due to the lack of documentation at the municipality, I was unable to determine the extent of the error or to perform feasible alternative procedures.
  - (a) The reconciliation between the rateable valuation as per the valuation roll and the rate charges levied was not performed during the current or prior financial years. Property transfers and improvements were also not updated on the valuation roll. Some properties could not be traced to the valuation roll to confirm whether rates and taxes were indeed being charged on the properties.
  - (b) Certain properties were transferred between owners that could not be located on the valuation roll after the transfers had taken place. It could not be confirmed that rates and taxes had been charged for these properties.
  - (c) Grants to the amount of R599 000 were received as per the external confirmations. These grants were not included as grant revenue. The total extent of the error is unknown due to the lack of supporting documentation for suspense accounts.
5. Supporting documentation for debit transactions included in rates and taxes amounting to R280 605 could not be obtained.

6. Paragraph 46 of the SA Standards of GRAP 23 states that revenue from a non-exchange transaction shall be measured at the amount of the increase in net assets recognised by the entity. Conditional grant funding received during the prior year was transferred to the district municipality. At the end of the prior year, a project had been completed by the district municipality but was not recognised as property, plant and equipment and grant revenue in the financial statements of Siyathemba Local Municipality. Hence grant revenue in the prior year was understated and property, plant and equipment was understated by R2 810 994.

### **Revenue from exchange transactions**

7. The completeness, accuracy, occurrence, classification and cut-off of the revenue from exchange transactions disclosed as R17 950 199 (2010: R16 290 794) in the statement of financial performance could not be confirmed. Due to the lack of documentation at the municipality I was unable to determine the extent of the error or to perform feasible alternative procedures.
- (a) Management did not implement controls over rental of commercial or grazing property to ensure that all revenue was recognised. Rental agreements could not be submitted; consequently, the rentals for the year could not be re-calculated.
  - (b) Monthly calculations and reconciliations between the traffic system and the general ledger were not performed. A portion of the amounts that were payable to the department during previous years was netted off against the current year's revenue. Supporting documentation for agency fees amounting to R296 131 could not be obtained. Due to the limitations of scope identified above, we are not able to quantify the misstatement.
  - (c) Registers, reconciliations and renewals were not submitted to confirm that all other revenue and licence and permit revenue that were received were recorded in the general ledger.
  - (d) Information regarding the total pre-paid electricity units sold per month per the pre-paid electricity system could not be obtained to establish that pre-paid electricity was included in the correct accounting period.
  - (e) Supporting documentation could not be obtained to ensure that indigents were entitled to subsidies amounting to R1 110 271.
  - (f) The gain on disposal of property, plant and equipment amounting to R173 023 in the prior year disclosed in the statement of financial performance could not be confirmed. No properties were disposed of according to the asset register and the properties that had been disposed of could not be traced to the asset register to determine the value of the disposal. Consequently the profit or loss on the disposal of properties could not be determined.
8. Paragraph 20 of the SA Standards of GRAP 9, *Revenue from exchange transactions*, states that when the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction shall be recognised by reference to the stage of completion of the transaction at the reporting date. Certain council-approved tariffs regarding service charges were not updated on the system. Consequently errors occurred in the charging of service revenue. Service charges were overstated by R1 301 190, VAT was overstated by R182 167 and receivables from exchange transactions were overstated by R1 483 357.

### **Property, plant and equipment**

9. I was unable to obtain sufficient appropriate audit evidence to conclude on the completeness, existence and valuation of and the rights to ownership of property, plant and equipment of R254 382 255 (2010: R251 186 530), as disclosed in note 9 to the financial statements, due to the following:

- (a) Certain infrastructure assets, other assets and land and buildings, which belonged to the municipality, were not included in the asset register and could consequently not be traced to the general ledger. The total extent of this error could not be determined.
- (b) Property, plant and equipment of R48 671 608 could not be verified because unique identifying markers were not allocated to assets and the correct global positioning coordinates were not included in the fixed asset register.
- (c) The assumptions used by the expert to value the infrastructure assets regarding deemed cost price, useful life and remaining useful life of the assets were not made available for audit. I was consequently not provided with sufficient appropriate audit evidence that the methodology that the expert followed was applied.
- (d) Other assets amounting to R1 951 815 in the financial statements were not supported by an asset register.
- (e) Land and buildings amounting to at least R11 354 548 were not registered in the name of the municipality at the deeds office.
- (f) Accumulated depreciation to the amount of R1 939 427 and depreciation to the amount of R766 821 were included in the infrastructure asset register. The amounts were omitted from the general ledger and could also not be supported by appropriate evidence.
- (g) Property, plant and equipment amounting to R7 859 664 could not be supported with sufficient, appropriate audit evidence.
- (h) A system to confirm the completeness, existence and valuation of property, plant and equipment was not in place, consequently the completeness, occurrence and accuracy of depreciation could not be confirmed.

The municipality's records did not permit the successful application of alternative procedures.

- 10. Paragraph 53 of the SA Standards of GRAP 17, *Property, plant and equipment*, states that each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. Depreciation was not calculated for all assets included in the asset register. Depreciation and accumulated depreciation were understated by R78 123 respectively.
- 11. The municipality did not capitalise qualifying expenses in the prior year as defined in paragraph 19 of GRAP 17, *Property, Plant and Equipment*. Property, plant and equipment were consequently understated and repairs and maintenance expenditure overstated by R338 318.

### **Intangible assets**

- 12. No intangible assets were included in the financial statements for the year under review or the prior year. I was unable to obtain sufficient appropriate audit evidence to conclude on the completeness of intangible assets. Intangible assets consisting of accounting systems and software to an unknown amount were identified that could not be traced to the general ledger. There were no alternative procedures that could be performed to mitigate this risk.

### **Payables from exchange transactions**

- 13. I was unable to obtain sufficient appropriate audit evidence to conclude on the completeness, existence and valuation of payables from exchange transactions of R8 416 259 (2010: R3 226 678), as disclosed in note 6 to the financial statements, due to the following:

- (a) Sufficient appropriate audit evidence could not be obtained for payables amounting to R6 028 621.
- (b) A system was not implemented to ensure that all amounts owing at year-end amounting to at least R222 389 were included as payables.
- (c) Supporting documentation was not submitted for debit transactions amounting to R1 827 390 affecting payables.

The municipality's records did not permit the application of alternative audit procedures.

14. Paragraph 6 of the SA Standards of GRAP 1 states that transactions and events should be recorded in the accounting records and recognised in the financial statements of the periods to which they relate. Payables amounting to R142 282 (2010: R6 411 893) were identified that were not recorded in the correct accounting period. Payables from exchange transactions were understated by R142 282, expenditure was understated by R124 809 and VAT was understated by R17 473.

### **Employee cost**

15. The occurrence, accuracy and classification of employee cost amounting to R20 717 795 disclosed in note 20 to the financial statements could not be verified due to the following:

- (a) Differences were identified between the general ledger and the salary system as reconciliations were not performed. These differences could not be explained or re-calculated due to a lack of supporting documentation.
- (b) Employment contracts, appointment letters, timesheets, clock cards or attendance registers were not submitted for salaries and wages amounting to R2 557 192.
- (c) Certain waged employees could not be physically verified.
- (d) Supporting documentation authorising certain allowances amounting to R601 893 paid to employees and councillor travel allowances that exceeded the authorised amounts according to the *Government Gazette* could not be obtained.
- (e) Supporting documentation could not be obtained for an amount of R380 646 disclosed as payroll deductions in note 36.4.

The municipality's records did not permit the application of alternative procedures.

### **Investment property**

16. No investment property was included in the financial statements for the year under review or the prior year. I was unable to obtain sufficient appropriate audit evidence to conclude on the completeness of investment property. Properties that are leased for commercial and agricultural purposes were identified that could not be traced to the general ledger. I was not able to determine the amount of the limitation.

The municipality's records did not permit the successful application of alternative procedures.

### **Receivables**

17. The existence, completeness and valuation of receivables from exchange and non-exchange transactions amounting to R2 784 951 as disclosed in notes 12 and 13 to the financial statements could not be confirmed due to the following:
- (a) Receivables to the amount of R1 294 591 could not be traced to supporting documentation.
  - (b) Sufficient appropriate audit evidence could not be obtained for prior year sundry



receivables disclosed in note 12 to the financial statements amounting to R759 856.

The municipality's records did not permit the successful application of alternative procedures.

### **Expenditure**

18. The completeness, occurrence, accuracy, classification and cut-off amounting to R20 299 525 of the total expenditure disclosed as R58 652 700 in the statement of financial performance, could not be confirmed, due to the following:
- (a) Sufficient, appropriate supporting documents to the amount of R6 909 672 (2010: R907 470) were not submitted.
  - (b) A contract between the municipality and an external party regarding the building of houses could not be submitted. It was not possible to determine whether expenditure amounting to R410 826 was allocated in the general ledger per this agreement.
  - (c) Sufficient appropriate audit evidence for expenditure amounting to R273 434 was not submitted to confirm that the expenditure was included in the correct accounting period.
  - (d) Sufficient, appropriate supporting documents for credit transactions included in expenditure amounting to R8 683 573 were not submitted.
  - (e) A system was not implemented to ensure that all amounts owing at year-end amounting to at least R222 389 were recorded as expenditure.

Owing to the lack of supporting documentation there were no alternative procedures that could be performed to verify the reported expenditure.

### **Inventory**

19. I was unable to obtain sufficient appropriate audit evidence to conclude on the completeness, existence and valuation of and the rights to ownership of inventory of R211 465 (2010: R150 822), as disclosed in note 11 to the financial statements, due to the following:
- (a) A proper system together with supporting documentation to record the receipt and issue of inventory was not maintained during the current or the prior year.
  - (b) An inventory listing supporting the amount included in the general ledger amounting to R211 465 was not submitted.
  - (c) Sufficient appropriate audit evidence could not be obtained to ensure that inventory was measured in accordance with the accounting policy as set out in the accounting policy notes.

The municipality's system and documentation did not permit the performance of alternative procedures.

20. Paragraph 84 of the SA Standards of GRAP 1, *Presentation of financial statements*, states that further sub-classifications of the line items presented in the financial statements shall be classified in a manner appropriate to the municipality's operations. The description included for inventory in the notes to the financial statements for both the current year and the prior year reflects that inventory consists of pre-paid electricity meters. Inventory items were identified during the inventory count that were not only limited to pre-paid electricity meters.

### **Employee benefits**

21. The completeness of employee benefits of R19 520 (2010: R19 520), as disclosed in note 3 to the financial statements, could not be confirmed as post-retirement benefits were not included as required by IAS 19 *Employee Benefits*. The municipality's system and lack of documentation did not permit the performance of alternative procedures or enable me to determine the extent of the error.

### **Current employee benefits**

22. The completeness, existence, valuation and obligations of current employee benefits of R1 655 751 (2010: R992 570), as disclosed in note 5 to the financial statements, could not be confirmed as leave forms and attendance registers were not submitted to confirm leave balances amounting to R838 798. The municipality's system and documentation did not permit the performance of alternative procedures.
23. Paragraph 6 of the SA Standards of GRAP 1 states that transactions and events should be recorded in the accounting records and recognised in the financial statements of the periods to which they relate. Leave was not accurately captured onto the system and consequently the liability regarding staff leave and employee cost was overstated by R147 886.

### **Long-term liabilities**

24. The completeness of long-term liabilities amounting to R302 801 (2010: R0) as disclosed in note 2 to the financial statements could not be confirmed due to the following:
- (a) There was no system in place to ensure that all leases were recorded in the general ledger.
  - (b) Certain leased assets were identified during the current year and prior year physical verification that could not be traced to the asset register. The extent of the error could not be determined.

Alternative procedures such as obtaining lease agreements and external confirmations were not successful.

### **Consumer deposits**

25. The completeness of consumer deposits amounting to R340 885 (2010: R385 099), as disclosed in note 4 to the financial statements, could not be confirmed as deposits amounting to R203 539 were identified that were not disclosed in the financial statements. The municipality's records did not permit the application of alternative procedures or enable me to determine the total extent of the error.

### **Commitments**

26. The completeness of commitments of R4 234 434, as disclosed in note 37 to the financial statements, could not be confirmed as a contract and tender register could not be submitted. The municipality's records did not permit the application of alternative procedures or enable me to determine the total extent of the error.

### **Budget disclosures**

27. The completeness, existence and valuation of budget disclosures, as disclosed in note 34.1 to the financial statements, could not be confirmed as the final council-approved budget did not agree to the budgeted figures included in the financial statements. Due to the limitations indicated in this report, the extent of the error could not be determined.



### Provisions

28. The completeness of provisions could not be determined. Three landfill sites were physically identified. Contrary to this, management did not disclose any provisions in the financial statements for the year under review and the prior year. The municipality's records did not permit the application of alternative procedures or enable me to determine the total extent of the error.

### Taxes

29. The completeness, existence, valuation and obligations of taxes as disclosed in note 8.1 to the financial statements amounting to R275 691 (2010: R444 323) could not be confirmed due to the following:
- (a) No reconciliation could be provided for an amount of R504 264 included in the opening balance of the current year that could not be supported by VAT returns.
  - (b) Supporting documentation could not be submitted for debit transactions that decreased VAT by an amount of R521 584 in the current year.

The municipality's records did not permit the application of alternative audit procedures.

### Irregular expenditure

30. The completeness, existence and valuation of irregular expenditure amounting to R15 501 699 (2010: R5 113 322) as disclosed in note 35.3 to the financial statements could not be determined due to the following:
- (a) There were insufficient controls to ensure that all irregular expenditure was identified, investigated and recorded.
  - (b) The limitation imposed by the lack of supporting documentation for the procurement of assets and expenditure did not enable me to determine whether all irregular expenditure was identified.
  - (c) Undisclosed irregular expenditure of R1 145 299 was identified, which resulted from non-compliance with the supply chain management regulations.
  - (d) Supporting documentation amounting to R83 605 could not be submitted to confirm that councillor allowances were authorised as required by *Government Notice No. R.1196* dated 19 December 2010.
  - (e) Supporting documentation could not be obtained for irregular expenditure amounting to R4 482 052.

The municipality's system and accounting records did not permit the performance of alternative procedures.

### Fruitless and wasteful expenditure

31. The completeness of fruitless and wasteful expenditure of R501 818 (2010: R420 582) as disclosed in note 35.2 to the financial statements could not be determined as a system to identify and account for fruitless expenditure was not in place. Management corrected fruitless and wasteful expenditure amounting to R81 236 that was identified during the audit. The total extent of the error included in the population could not be determined. The municipality's records did not permit the application of alternative audit procedures.

### Unauthorised expenditure

32. The completeness of unauthorised expenditure amounting to R33 511 219, as disclosed in note 35.1 to the financial statements, could not be confirmed due to the following:
- (a) The limitations identified in the expenditure paragraph did not enable me to confirm that all unauthorised expenditure was disclosed in the financial statements.

- (b) Supporting documentation could not be obtained for an adjustment on the opening balance amounting to R1 703 049 that decreased the current year's corresponding figure from the prior year's comparative figure.

The municipality's records did not permit the application of alternative procedures or enable me to determine the total extent of the error.

### **Material losses**

33. No material losses were included in the financial statements for the year under review or the prior year. The completeness of material losses could not be confirmed as water consumption from the reservoirs and electricity units sold and purchased during the year were not available. Due to the limitations imposed by the system and the lack of supporting documentation, the total extent of the error could not be determined and alternative procedures could not be performed.

### **Cash flow statement**

34. Presentation of a cash flow statement, summarising the entity's operating, investing and financing activities, is required by the SA Standards of GRAP 2, *Cash flow statements*. The accuracy of the cash flow statement for the current and prior year could not be confirmed due to the limitations imposed by the lack of supporting documentation as included in this report.

### **Disclaimer of opinion**

35. Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

### **Emphasis of matters**

36. I draw attention to the matters below. My opinion is not modified in respect of these matters:

### **Restatement of corresponding figures**

37. As disclosed in note 29 to the financial statements, the corresponding figures for 30 June 2010 have been restated as a result of errors discovered during the financial year ended 30 June 2011 in the financial statements of Siyathemba Local Municipality at, and for the year ended, 30 June 2011 of R97 194 164.

### **Material underspending of budget**

38. As disclosed in note 34 to the financial statements, a material underspending of voted funds occurred. The limitations identified in the expenditure paragraph did not enable me to confirm the extent of the underspending. Due to the annual report not being submitted for audit purposes, the effect on service delivery by the municipality could not be determined.

### **Financial sustainability**

39. Note 45 to the financial statements indicates the following conditions that indicate the existence of a material uncertainty that may cast significant doubt on the entity's ability to operate as a going concern:  
The municipality experienced serious difficulties with regard to debt collection. Debtors amounting to R24 632 082 (87%) (2010: R17 379 668) (62%) had been outstanding for more than 90 days.  
The municipality did not settle all trade creditors within 30 days as required by section 65(2) (e) of the MFMA.

Payables from exchange transactions disclosed in the financial statements amounted to R6 660 806 (2010: R3 226 678). The amount disclosed in the financial statements increased by 106% from the prior financial year. Supporting documentation could not be obtained to confirm that payables were complete as reported in paragraph 14.

40. Owing to management not implementing sufficient controls as well as the extent of differences and uncertainties identified during the audit, material irregularities might exist at Siyathemba Local Municipality that will not be prevented or identified by the system of internal control and that would not have been identified during the audit due to the material limitations placed on the scope of the audit.

#### **Additional matters**

41. I draw attention to the matter below. My opinion is not modified in respect of this matter:

#### **Unaudited supplementary schedules**

42. The supplementary information set out on pages 86 to 88 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

#### **Material inconsistencies in other information included in the annual report**

43. The annual report had not been received at the date of this report; as a result, a conclusion could not be drawn on the consistency of the financial statements and the audit report with other information included in the annual report.

### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

44. In accordance with the PAA and in terms of *General Notice 1111 of 2010*, issued in *Government Gazette No. 33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages 0 to 0 and material non-compliance with laws and regulations applicable to the municipality.

#### **Predetermined objectives**

45. I was unable to conduct the audit of performance against predetermined objectives as the municipality did not submit the annual performance report as required by section 46 of the Municipal Systems Act of South Africa, 2000 (Act No.32 of 2000) (MSA) and section 121(3)(c) of the MFMA.

#### **Usefulness of information**

46. The following criteria are relevant to the findings below:

- Consistency: Objectives, indicators and targets are consistent between planning and reporting documents.
- Measurability: Indicators are well defined and verifiable, and targets are specific, measurable and time bound.

47. Audit findings:

#### **Integrated development plan was not aligned with service delivery budget implementation plan (Consistency)**

48. Information (objectives, indicators, targets) in the integrated development plan did not correspond with the information (objectives, indicators, targets) contained in the service delivery budget implementation plan as prescribed by the performance management framework. Ex.74

#### **Planned and reported targets were not specific (Measurability)**

49. For all programmes, 63% of the planned targets were not specific in clearly identifying the nature and the required level of performance. Ex.71

**Planned and reported targets not measurable (Measurability)**

50. For all programmes, 43% of the planned targets were not measurable in identifying the required performance. Ex.71

**Planned and reported targets not well defined (Measurability)**

51. For all programmes, 36% of the planned indicators were not clear, as unambiguous data definitions were not available to allow for data to be collected consistently. Ex.71

**Planned and reported targets not time-bound (Measurability)**

52. For all programmes, 94% of the planned and reported targets were not time-bound. Ex.71

**Compliance with laws and regulations**

**Strategic planning and performance management**

53. The municipality did not implement a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players, contrary to the requirements of sections 38, 39, 40 and 41 of the MSA read with regulations 7 and 8 of the Municipal Planning and Performance Management Regulations, 2001.
54. The quarterly reports on the progress in achieving measurable objectives and targets were not prepared, contrary to section 36.
55. Evidence could not be obtained to confirm that senior managers directly accountable to the municipal manager signed annual performance agreements for the year under review, contrary to the requirements of sections 57(1)(b) and 57(2)(a) of the MSA. Performance bonuses were not paid.
56. Evidence could not be obtained to confirm that the municipal manager signed an annual performance agreement for the year under review, contrary to the requirements of sections 57(1)(b) and 57(2)(a) of the MSA. A performance bonus was not paid to the municipal manager.
57. The municipal council did not, within the prescribed period after the start of its elected term, adopt a process set out in writing to guide the planning, drafting, adoption and review of its integrated development plan as required by section 28(1) of the MSA.
58. The accounting officer of the municipality did not by 25 January assess the performance of the municipality during the first half of the financial year, taking into account the municipality's service delivery performance during the first half of the financial year and the service delivery targets and performance indicators set in the service delivery and budget implementation plan as required by section 72(1)(a)(ii) of the MFMA.
59. The annual performance report could not be obtained, consequently I was not able to confirm whether the annual performance report contained a comparison of the performance of the municipality and of each external service provider with development priorities, objectives and performance indicators set out in its integrated development plan, contrary to the requirements of section 46 of the MSA.
60. The performance report for the financial year under review was not prepared, contrary to the requirements of section 46 of the MSA read with section 121(3)(c) of the MFMA.
61. The IDP of the municipality did not include the key performance indicators and performance targets determined in terms of its performance management system as required by sections 26(i) and 41(1)(b) of the MSA.



62. The municipality did not set performance targets on an annual basis as required by section 41(1)(a) of the MSA.

### **Budget**

63. The municipality incurred expenditure that was not budgeted for and incurred expenditure in excess of the limits of the amounts provided for in the votes in the approved budget, in contravention of section 15 of the MFMA.
64. The mayor did not submit all quarterly reports to council on the implementation of the budget and the financial state of affairs of the municipality within 30 days after the end of each quarter, contrary to the requirements of section 52(d) of the MFMA.
65. The accounting officer did not always submit the monthly budget statements to the mayor and the relevant provincial treasury, contrary to the requirements of section 71(1) of the MFMA.
66. Unforeseeable and/or unavoidable expenditure not provided for in the annual budget was incurred but was then not appropriated in an adjustment budget, contrary to the requirements of section 29(2)(d) of the MFMA.
67. The total unforeseen and unavoidable expenditure incurred for which no provision was made in the approved budget in contravention of Municipal Budget and Reporting Regulation 72, exceeded R18 039 075.

### **Financial statements and annual performance report**

68. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of capital assets, current assets, current liabilities, revenue, expenditure and disclosure items identified by the auditors were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a disclaimer of audit opinion.
69. The accounting officer did not submit the annual financial statements of the municipality for auditing, within two months after the end of the financial year as required by section 126(1)(a) of the MFMA.
70. The performance report for the financial year under review was not prepared, contrary to the requirements of section 46 of the MSA read with section 121(3)(c) of the MFMA.
71. The accounting officer did not prepare and include an assessment of the performance against any measurable performance objectives set in terms of the service delivery agreement, contrary to the requirements of section 46 of the MSA read with section 121(4)(d) of the MFMA.

### **Audit committees**

72. Contrary to the requirements of section 166 of the MFMA, the audit committee did not function, in that:
- The audit committee did not advise the council, the accounting officer and the management staff of the municipality on matters relating to internal financial control and internal audits, risk management, accounting policies, performance management, effective governance, compliance with applicable legislation and performance evaluation.
  - The audit committee did not review the annual financial statements.
  - The audit committee did not respond to the council on any issues raised by the Auditor-General in the audit report.
  - The audit committee did not consist of at least three persons with appropriate experience.
  - The audit committee did not meet at least four times a year.
73. The audit committee did not advise the council of the municipality on the adequacy, reliability and accuracy of financial reporting and information, contrary to the requirements of section 166(2)(a)(iv) of the MFMA.

74. The audit committee did not advise the municipal council, the political office bearers, the accounting officer and the management staff of the municipality on matters relating to compliance with the MFMA, the DoRA and other applicable legislation, contrary to the requirements of section 166(2)(a) of the MFMA.
75. The municipality did not appoint and budget for a performance audit committee, nor was another audit committee utilised as the performance audit committee, contrary to the requirements of regulation 14(2)(a) of the Municipal Planning and Performance Management Regulations, 2001.

#### **Internal audit**

76. The municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes as required by section 45(1)(a) of the Municipal Systems Act and Municipal Planning and Performance Management Regulation 14.
77. The internal audit processes and procedures did not include assessments of the functionality of the municipality's performance management system and whether the system complied with the requirements of the Municipal Systems Act as required by Municipal Planning and Performance Management Regulation 14.
78. The internal audit processes and procedures did not include assessments of the extent to which the municipality's performance measurements were reliable in measuring the performance of the municipality on key as well as general performance indicators as required by Municipal Planning and Performance Management Regulation 14.
79. The internal auditors of the municipality did not audit the performance measurements on a continuous basis and did not submit quarterly reports on their audits to the municipal manager and the performance audit committee as required by Municipal Planning and Performance Management Regulation 14.

#### **Procurement and contract management**

80. Goods and services with a transaction value of between R10 000 and R200 000 were procured without obtaining written price quotations from at least three different prospective providers as per the requirements of SCM regulation 17(a) and (c).
81. Sufficient appropriate audit evidence could not be obtained that goods and services with a transaction value of between R10 000 and R200 000 were procured by means of obtaining written price quotations from at least three different prospective providers as per the requirements of SCM regulation 17(a) and (c).
82. Quotations were accepted from prospective providers who are not on the list of accredited prospective providers and do not meet the listing requirements prescribed by the SCM policy, in contravention of SCM regulation 16(b) and 17(b).
83. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids as per the requirements of SCM regulation 19(a) and 36(1).
84. Sufficient appropriate audit evidence could not be obtained that goods and services of a transaction value above R200 000 were procured by means of inviting competitive bids as per the requirements of SCM regulation 19(a) and 36(1).
85. Sufficient appropriate audit evidence could not be obtained that bid specifications for procurement of goods and services through competitive bids were drafted in an unbiased manner that allowed all potential suppliers to offer their goods or services as per the requirements of SCM regulation 27(2)(a).
86. Sufficient appropriate audit evidence could not be obtained that awards were made to providers based on criteria that were similar to those stipulated in the original bid documents or were stipulated in the original bid documents as per the requirements of SCM regulation 21(b) and 28(1).



87. Sufficient appropriate audit evidence could not be obtained that invitations for competitive bidding were advertised for a required minimum period of days as per the requirements of SCM regulation 22(1) and 22(2).
88. Sufficient appropriate audit evidence could not be obtained that bid specifications were drafted by bid specification committees which were composed of one or more officials of the municipality as required by SCM regulation 27(3).
89. Sufficient appropriate audit evidence could not be obtained that bids were evaluated by bid evaluation committees which were composed of officials from the departments requiring the goods or services and at least one SCM practitioner of the municipality as per the requirements of SCM regulation 28(2).
90. Sufficient appropriate audit evidence could not be obtained that final awards and/or recommendation of awards to the accounting officer were made by an adjudication committee constituted as per the requirements of SCM regulation 29(2).
91. Awards were made to providers whose tax matters had not been declared by the South African Revenue Service to be in order, contrary to the requirements of SCM regulation 43.
92. Sufficient appropriate audit evidence could not be obtained that awards were made to providers whose tax matters had been declared by the South African Revenue Service to be in order, contrary to the requirements of SCM regulation 43.
93. Awards were made to suppliers who did not submit a declaration on their employment by the state or their relationship to a person employed by the state as per the requirements of Municipal SCM regulation 13(c).
94. The preference point system was not applied in all procurement of goods and services above R30 000, contrary to the requirements of section 2(a) of the Preferential Procurement Policy Framework Act and SCM regulation 28(1)(a).
95. Sufficient appropriate audit evidence could not be obtained that the preference point system was applied in all procurement of goods and services above R30 000, contrary to the requirements of section 2(a) of the Preferential Procurement Policy Framework Act and SCM regulation 28(1)(a).
96. Awards were made to suppliers based on preference points that were not allocated and calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act (PPPFA) and its regulations.
97. Sufficient appropriate audit evidence could not be obtained that awards were made to suppliers based on preference points that were allocated and calculated in accordance with the requirements of the PPPFA and its regulations.
98. Sufficient appropriate audit evidence could not be obtained that awards were made to suppliers that scored the highest points in the evaluation process as per the requirements of section 2(1)(f) of PPPFA.
99. Sufficient appropriate audit evidence could not be obtained that construction contracts were awarded to contractors that were registered and qualified for the contract in accordance with the prescripts of the Construction Industry Development Board.
100. The municipality did not implement an SCM policy as required by section 111 of the MFMA.
101. A list of accredited prospective providers was not in place for procuring goods and services through quotations, contrary to the requirements of SCM regulation 14(1)(a).
102. It was identified that the items management identified as irregular expenditure were not reported to council, contrary to the requirements of regulation 36, subparagraph (2) of the SCM.

#### **Expenditure management**

103. Money owed by the municipality was not always paid within 30 days of receiving an invoice or statement, contrary to the requirements of section 65(2)(e) of the MFMA.

104. Sufficient appropriate audit evidence could not be obtained that money owed by the municipality was always paid within 30 days of receiving an invoice or statement, contrary to the requirements of section 65(2)(e) of the MFMA.
105. Sufficient appropriate audit evidence could not be obtained that payments were approved by the accounting officer or a properly authorised official as required by section 11(1) of the MFMA.
106. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds, as required by section 65(2)(a) of the MFMA.
107. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system which recognised expenditure when it was incurred, accounted for creditors of the municipality and accounted for payments made by the municipality as required by section 65(2)(b) of the MFMA.
108. The municipality did not recover unauthorised, irregular or fruitless and wasteful expenditure from the liable person, contrary to the requirements of section 32(2) of the MFMA.
109. The accounting officer did not take reasonable steps to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, contrary to the requirements of section 62(1)(d) of the MFMA.
110. The accounting officer of the municipality did not inform the MEC of Local Government in the province and the Auditor-General in writing of any unauthorised, irregular or fruitless and wasteful expenditure incurred by the municipality and whether any person responsible was under investigation for such unauthorised, irregular or fruitless and wasteful expenditure as disclosed in note 44.3 to the financial statements, contrary to the requirements of section 32(4) of the MFMA.

#### **Transfer and conditional grants**

111. Sufficient appropriate audit evidence could not be obtained that the allocations for grant revenue were utilised for the purposes stipulated in their respective schedules or Gazetted Division of Revenue Act framework, as required by section 15(1) of the DoRA.

#### **Revenue management**

112. Interest was not charged on all arrears accounts as required by section 64(2)(g) of the MFMA.
113. Revenue received by the municipality was not always reconciled at least on a weekly basis as required by section 64(2)(h) of the MFMA.
114. A credit control and debt collection policy was not implemented, contrary to the requirements of section 96(b) of the MSA.
115. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system which recognised revenue when it was earned and accounted for debtors, contrary to the requirements of section 64(2)(e) of the MFMA.
116. The accounting officer did not take all reasonable steps to ensure that the municipality sold land at market-related values, contrary to the requirements of section 14 (2) of the MFMA.

#### **Asset management**

117. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system which

accounted for the assets of the municipality, contrary to the requirements of section 63(2)(a) of the MFMA.

118. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained an effective system of internal control for assets, contrary to the requirements of section 63(2)(c) of the MFMA.

### **INTERNAL CONTROL**

119. In accordance with the PAA and in terms of *General Notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the basis for disclaimer of opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

### **Leadership**

120. The following challenges were experienced that contributed to the weaknesses in the financial environment and the ultimate audit outcome:
- Personnel had not been allocated specific duties and responsibilities to facilitate the continuous monitoring of internal controls.
  - The leadership did not take appropriate action with regard to a lack of controls in the finance and supply chain management directorates, resulting in non-compliance with applicable legislation and inadequate budget control measures. This, in turn, resulted in irregular, fruitless and wasteful as well as unauthorised expenditure.
121. Leadership did not regularly monitor management's compliance with laws, regulations and internally designed policies and procedures. As a result, significant non-compliance issues were noted.

### **Financial and performance management**

122. The municipality did not have individuals who sufficiently understood the financial reporting framework and performance and financial management requirements with the result that the municipality engaged a consultant to assist in the compilation of the general ledger and financial statements. The underlying accounting records of the municipality did not facilitate the preparation of the financial statements to comply with the accounting framework.
123. Manual or automated controls were not designed to ensure that the transactions had occurred, were authorised, and were completely and accurately processed. Documentation supporting amounts disclosed in the financial statements was not always available.
124. Management did not document and approve internal policies and procedures to address the process of collection, recording, processing, monitoring and reporting on performance information. Consequently, performance systems, processes and procedures had not been designed and implemented.

### **Governance**

125. The risk of material misstatement due to fraud was not considered. Sufficient controls and segregation of duties to prevent or detect fraudulent data and asset misappropriation were not implemented and maintained.
126. The municipality did not respond to the assessed risks by determining a risk strategy

and action plan to manage identified risks. Consequently, internal controls were not selected and developed to prevent, detect and correct material misstatements in financial reporting and reporting on predetermined objectives.

127. The financial statements were subject to material corrections resulting from the audit, which can be attributed to the lack of risk assessments, weaknesses in the design and implementation of internal control in respect of financial management and financial reporting, and weaknesses in the information systems.
128. The accounting officer did not prioritise the establishment of a fully functioning performance audit committee and audit committee and therefore the functions were not established and functional during the financial year. This also resulted in the committees not being able to fulfil all their responsibilities.

## OTHER REPORTS

### Investigations

129. Two fraud investigations were requested by external parties responsible for governance of the municipality. These reports had not been submitted at the date of this audit report.
  - The Special Investigating Unit is investigating the possible occurrence of fraud at the traffic department.
  - The Northern Cape Office of the Premier instituted an investigation during the year. The scope and outcome of this investigation are unknown.

Kimberley

4 February 2012



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*